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ABSTRACT

This manual is designed to instruct administrators of the Guaranteed Student Loan (GSL) Program in how to take every step possible to administer the program effectively and to minimize the program costs of serving the high risk student. It shows schools how to work with students throughout their time in school, create ownership of the loan(s) by the students, and work with the lenders and guarantee agencies when the student becomes delinquent in loan repayments. Chapter I focuses on the default problem of the GSL program. Chapter II considers who defaults and why. The school's effectiveness in administering the GSL program is the focus of chapter III. It covers school administrative procedures that have an impact on defaults and recommending lenders. Chapter IV outlines the Model School Default Prevention Program. Chapter V is designed to help administrators select from the full range of options in the model to tailor the program to the school. The referenced student handout materials are presented in chapter VI. The Borrower's Maintenance Manual for Guaranteed Student Loans includes sections on application for a GSL, loan management, repayment and/or deferments and forbearance, and defaults. Chapter VII contains additional tips to reduce defaults. Appendixes include samples of forms and handouts for students. (YLB)

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Default Management Manual

The Career Training Foundation

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FOREWORD

Purpose

Actions

The Default Conference

Purpose

Everything must be done to ensure that all parties are correctly administering the Guaranteed Student Loan Program. We must also focus the public policy debate on the real issue--the cost of serving high risk students versus the cost to society of not training this important segment of our society.

Actions

The various private career school associations had begun their own default prevention initiatives. Rather than produce separate efforts, the private career school community decided to establish a unified default initiative. This initiative was carried out in cooperation with the Career Training Foundation (CTF), a nonprofit organization that was established to carry out research and develop publications and training related to proprietary education. CTF agreed to pay for the development of a default manual. The National Association of Trade and Technical Schools (NATTS) and the Association of Independent Colleges and Schools (AICS) provided resources to develop this manual.

NATTS, AICS, the National Association of Accredited Cosmetology Schools (NAACS), the National Home Study Council (NHSC), and the National Association of Health Career Schools (NAHCS), agreed to publish and distribute manuals to their members.

The Default Conference

The Career Training Foundation hosted a day-long workshop in March, 1987. Recognized leaders in the GSL Program from across the country attended the workshop. Invitees included Department of Education officials, representatives from the National Council of Higher Education Loan Programs, National Association of Student Financial Aid Administrators, Sallie Mae, lenders, financial aid experts, and owners and directors of private career schools.

Some of the following questions, decisions, and issues surfaced during the workshop. What is the default rate? Why is there more than one default rate? Should there be more than one default rate? How are the different default rates calculated? How do you measure the impact of change on the process? NATTS and AICS decided to embrace the Department of Education's goal of a 25% reduction in defaults in the Guaranteed Student Loan Program over the next two years.

Unfortunately, the participants were not sure what the base figure is and how to measure the impact of this initiative. The group also found that there is not much definitive data on the program and its recipients. As a result, more questions were generated and unanswered than answered.

This manual shows schools how to work with the student throughout his or her time in school, create ownership of the loan(s) by the students, and how schools can work with the lenders and guarantee agencies when the student becomes delinquent in loan repayments.

Acknowledgements

We want to thank all of the Default Conference participants and the various private career school associations who have given of their time and resources for this critical effort.

COMMITMENT

The default conference, however, clearly established a commitment to the program and the declared schools as the official "advocate" for the student. In addition, when the conference concluded, the most effective default reduction/prevention techniques had been identified. Mr. Richard Dent was assigned the responsibility of creating a document or "how-to" manual that incorporated the workshop recommendations.

PREFACE

The problem is ownership

"Guaranteed Student Loan"

Regardless of "ideal situations," and "better balances between grants and loans," and "risks of a generation of indebted graduates," loans play a major role in helping thousands of people access post-secondary education in this country. The predominant Federal student financial aid program is the Guaranteed Student Loan Program.

The volume of loans has increased from the days when middle income families borrowed money to pay for their children's college education. Today, it has become the flagship Federal student financial aid program for all postsecondary students. More and more low income, and older citizens now rely on this program. In addition, for the single head of household attempting to become trained and enter the job market for the first time, this program is vitally important.

As grant funds diminished in the proportion of student financial aid funding sources available, loans became an important part of funding for the "high risk" student. A high risk student is simply that student who, because of socioeconomic background, or prior experiences, has a high propensity to fail.

THERE ARE SERIOUS PROBLEMS IN THE GSL PROGRAM - an increasing default rate, serious questions about the purpose of the program, the question of cost effectiveness, over-regulation, and disincentives for schools and lenders and guarantee agencies to serve high risk students.

This default management manual is based upon the assumption that Government will continue its commitment to the high risk student. It is thus incumbent upon the administrators of the GSL Program to take every step possible to effectively administer the program and to minimize the program costs of serving the high risk student.

The problem is ownership

The problems in the GSL Program are, in part, due to a lack of ownership. We have created a multi-billion dollar loan program that, even in its name, is the "other guy's" responsibility.

"Guaranteed Student Loan"

To the student:

- his or her right to have (Guaranteed)
- insured if he or she doesn't pay (Guaranteed)

To the school:

- a loan made to students
  - without a credit history
  - without a credit check
  - without a cosigner
- that is made by a lender and without school involvement or responsibility
- is guaranteed by someone else and the school is prohibited from involvement in collection.

To the lender:

- a loan to people who would not be considered for a loan without the guaranteed repayment of a default
- a loan that contains no positive incentives for default reduction activities
- guaranteed if the student defaults

To the State guarantor:

- a State program that is primarily financed by the Federal government and the borrower (guaranteed income)
- a program that clearly establishes that the purchase of defaulted loans is guaranteed by the US government (guaranteed against risk)
- a program that puts the State at risk when the default rate exceeds certain defined levels or
- a program with disincentives for serving the high risk student

To the US Department of Education (ED):

- a program administered by others who have no ownership in the program.
- a program that ED must pay more for each year (a guaranteed problem)

This manual is designed, in part, to create ownership in the program by the students. It will hopefully be the model which motivates other players to also assume ownership–(lenders, guaranty agencies, and schools)--and will ensure that all parties do their part and work together to acheive a successful program.

This is your Official Default Management Manual for the Guaranteed Student Loan Program. Correct maintenance of programs will ensure a long-lived program that will effectively serve all postsecondary students.

Career Training Foundation

The Career Training Foundation is a nonprofit organization that was established to carry out research and develop publications and training related to career education. The Foundation describes the private career school industry and the students it serves and provides information appropriate to the public policy needs of the private career school sector.

During the past year, the Foundation has undertaken several research projects including this special Private Career School Default Management Initiative.

ABOUT THE AUTHOR

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CHAPTER ONE
The Problem

Focus
We have a Default Problem
Understanding Default Rates

Focus

The focus of this project is Guaranteed Student Loan Default Prevention. While the concepts and processes outlined in the manual are also generally applicable to other educational loans, (to supplemental loans, parent loans and Perkins loans) we wanted to develop a default prevention plan that reflected the specific requirements of the Guaranteed Student Loan (GSL) program.

The GSL program is the largest single source of aid funds for post-secondary students. It is also the most complex and controversial aid program. The size of the program means that it is always in the spotlight and every blemish that is exposed prompts calls for major corrective surgery. Often, catching the cure can be a bigger health hazard than catching the disease.

Extending the analogy, this manual is about preventive medicine, a course of action that will eliminate the need for major surgery.

We have a Default Problem?

Anytime that you talk about billions of loan dollars in default ($4.2 billion as of fiscal year 1985) you have a problem. These numbers alone suggest that something is wrong.

Much of the growth in default dollars is directly related to the rapid expansion of the program during the 1980s. From program inception in 1965 to 1979, a total

of $10.4 billion was borrowed. From 1980 to 1985, the cumulative borrowing total expanded geometrically to $50.4 billion. **The larger the program, the more dollars that go into default. That would be true even if the percentage of defaulting borrowers and the average default loan size remained constant.** However, there is some evidence to support the premise that both are increasing.

Understanding Default Rates

The most frequently cited default percentage is what is known as the

gross default rate. It is calculated by taking the loan dollars that have entered the repayment cycle and dividing that amount into the total dollars that have gone into default. This percentage can be calculated for the GSL program nationally or for individual guarantors, lenders, or schools.

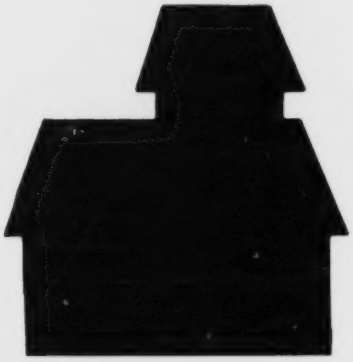
In 1985, there were 56 guarantor programs operating nationally. The median gross default rate was 8.8%. One fourth of all reporting guarantors had default rates of 6% or less, while the highest fourth reported default rates of 11.5% or higher. Because the default rates are based on cumulative dollars from program inception, the gross default rate is a relatively poor trend indicator as it usually takes a few years for changes up or down to have any major impact on the percentage rates. Given the fact of the remarkable GSL program growth of the last 5 years, this presents a problem in interpretation.

It takes about 1½ years for even the fastest loan to go into default (assume a dropout after 2 months of school, a 6 month grace period and an 8 month delinquency default cycle). The average defaulted loan takes over 2 or 3 years to reach that status. Thus, we are now beginning to see the impact of the rapid program expansion of the 1980s. Default percentages are increasing slowly but they are going up. While we may not yet have a complete understanding of the problem, we do know that we have a default problem and it is getting worse.

It's Everyone's Problem

While the borrower must accept final responsibility for the loan, schools, lenders, guarantors, secondary markets, loan servicers, and the Federal government can significantly impact the process. How they discharge their responsibilities will increase or decrease the probability of successful loan repayment.

Schools should take the lead !



A. Schools have an educational responsibility to make certain that their students understand the reality of the borrowing decision.

B. Schools are in a unique position to provide the counseling and support that will reduce defaults.

C. Future students will be denied access to loans if defaults continue to increase.

It's Everyone's Problem

Schools should take the lead

The Role of GSLs

Back to the problem

As you may know, default rates are different because students are dramatically different from school to school. Private career schools and community colleges enroll the highest percentages of students from low income families, of adults seeking to reenter the work force, of single mothers striving to get off welfare.

These schools accept the risk of providing educational opportunities to the widest spectrum of our society. Yet in spite of serving so many high risk students and in spite of our fixation with default problems, the great majority of borrowers succeed. They get good jobs and they repay their loans. They ultimately become valuable contributing members of our society.

The Role of GSLs

In Reauthorization, Congress firmly established its position on the role of GSLs. They are to be the aid program of last resort. Schools are required to determine student eligibility for other aid (specifically Pell and State grants) before approving a GSL. Most schools had, in practice, followed this approach for some time.

Ironically, however, private career schools and community colleges had a disproportionately small share of the aid dollars. Career schools particularly were late invitees to the annual banquet that divided the Federal campus based aid dollars. Unfortunately, when they finally arrived, they found the stew pot to be mostly empty.

On the State level, career school students are in many cases ineligible or marginally eligible for State grants. Many colleges with access to multiple aid funds seek to reduce risk for low income students. They are able to tap multiple grant funds to provide a package that lessens reliance on loans, particularly in the first (riskier) years of enrollment. **But for most private career schools and many community colleges financial aid is spelled PELL and GSL.** Students at these schools need both programs if they are to survive. When GSLs are the primary resource for your highest risk student population, you will have defaults.

Back to the Problem

This manual will help to prevent unnecessary defaults. When you make millions of unsecured loans primarily to young people who have little or no job or credit history, some of these individuals may never be more than marginally

employed and never be financially able to repay their loans. But according to some guaranty agency

personnel, a significant number of loans should never have entered default. The program outlined in this manual is an attempt to specifically address these defaults.

The Theme is OWNERSHIP

One of the discussions of the Project Task Force centered on the use of the word "guaranteed." There was a feeling that "guaranteed" carried a connotation that lessened borrower responsibility. After all, it means that if the borrower doesn't take care of the loan, some other entity will. While acknowledging that "guaranteed" is a valid descriptive term, we believe that there would be merit in changing the name of this program.

This discussion led us to our theme of OWNERSHIP. For many, if not most borrowers, obtaining a GSL is a mechanical form-shuffling process. Students expect to borrow, go through the paper mill, and sign their loan checks with very little reflection on what it means. **We want to change that!** We want to focus on the student and to provide information and tools that will encourage the student to accept the responsibility for the loan, to understand what that means, and to feel confident that they possess the knowledge to protect their rights. We've put a lot of emphasis on students understanding and protecting their rights because we believe that it will help students to understand that this loan is theirs and that they can manage it successfully. Schools also need to accept the responsibility for protecting the GSL program and for providing their students with loan management skills. Lenders need to own the loans in the same sense that they own their other unguaranteed consumer loans and to work just as hard to keep GSL loans alive and paying.

In addition, guarantors need to be more responsive to students and must make certain that their lenders operate "within the spirit as well as the letter of the law." And lastly, the Federal government needs to reaffirm its commitment to Federal student aid programs as a major vehicle for our society's investment in its own future. Current budgetary concerns need to be understood in the context of society's long term return on the student aid dollar investment.

OWNERSHIP IS THE KEY!

After all, when we own something, we want to take care of it!

The Theme is OWNERSHIP

CHAPTER TWO
Who Defaults and Why

Facing Facts

Family Income

Academic/Program Related Issues

Earnings and Repayment

First Conclusion

I. Facing Facts

At the beginning of the project, the Project Task Force undertook a survey of the available research on student loan defaults. A summary of the major research findings is as follows:

1. Family Income

Defaulters were much more likely than repayers to come from low income families. Virginia found that while 31% of borrowers had family incomes under $10,000, 67% of defaulters had incomes in this range. Pennsylvania reported that 1 in 5 borrowers had incomes under $5,000, but 3 out of 5 defaulters fell into this category.

A second finding was that independent students were more likely to default than dependent students. However, as independent students are also much more likely to be found in the low income intervals, it may be more of an economic issue than a dependency one.

2. Academic/Program Related Issues

Defaults were inversely related to program length. Students whose only borrowing was in the first year of postsecondary study were much more likely to default than borrowers in longer programs. As you go up from one-year programs to associate degree to bachelor's to graduate degrees, default rates go down. Students who drop out of programs have a higher default rate than those who complete programs. Students who had been high school dropouts had a higher default rate than high school graduates. Defaulters, in general, tended to be younger than repayers.

3. Earnings and Repayment

Employed borrowers were more likely to repay the loans; New York found 80% of repayers were employed when the first payment came due versus only 26% of defaulters. The higher the percentage of a student's disposable income represented by loan repayments, the greater the likelihood of default.

First Conclusion

Economically and educationally disadvantaged students are more likely to default on loans than higher income, academically successful students. This poses a particular challenge to private career schools. In most States, private career schools enroll a higher percentage of disadvantaged students

than any other educational segment. If your student body includes a substantial percentage of low income students, it is probable that your default rate will exceed the national average. For this reason, it is important that you be able to defend the social utility of loans to high risk students while also demonstrating your commitment to reducing unnecessary or unwarranted defaults.

4. Additional Findings

- Students who had borrowed from more than one lender were more likely to default.
- Students who had been in contact with their lenders before repayment were more likely to repay their loans.
- Repayers were twice as likely as defaulters to have known when repayment was scheduled to begin.
- Most defaulters (70%+) had never made a payment before default--getting the student to make the first payment was highly correlated with eventual successful payoff.
- Students who had been employed summer or part-time while in school were more likely to repay their loans than those borrowers who were not so employed.
- Students attending schools that had on-campus aid offices were more likely to repay the loans than students who dealt with a (distant) centralized aid office.
- After default, guaranty agencies were able to collect from 27% of defaulters in the first six months of the default period.
- When default accounts that had been dormant for 18 months after default were worked, agencies were able to collect from 34% of the borrowers.
- Eventually, students pay. Pennsylvania estimates that 70% of their defaulted loan portfolio will be collected or legally discharged through death, disability or bankruptcy.

Second Conclusion

There are a number of factors associated with repayment or default

Additional Findings

Second Conclusion

Third Conclusion
The Need for More Research
What is Needed

that are within your school's realm of action. Knowing when repayment starts, understanding deferments, and communicating with lenders are all areas that can be improved by school default prevention programs. You can make a difference.

Third Conclusion

When one looks at the correlation between unemployment when the loan comes due and subsequent repayment history after default, one has to conclude that a lot of students unnecessarily default. A student who plays by the rules can have up to three years to move from unemployment to employment before that loan must default. If you help your students protect their rights under the GSL program, (and their future credit) you will also help eliminate unnecessary defaults.

As we build the model default prevention program, we will use the research findings to help us define positive school actions.

II. The Need for More Research

In the course of this project, we asked every guaranty agency and the U.S. Department of Education (ED) for research studies on defaults or any standard analysis they did on who defaulted and why. While a few States were able to share research, most reported that the data were not available. Unfortunately, the research that was made available was normally of the snap-shot variety, i.e., an analysis of existing records at some point in time.

What is Needed

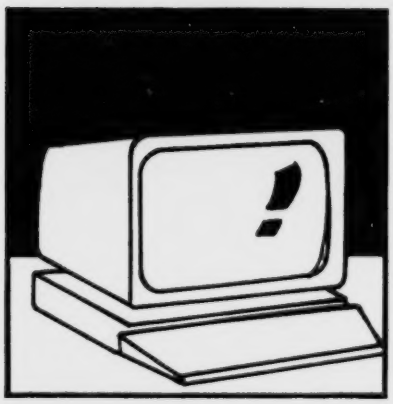
What is needed are longitudinal studies designed specifically to take groups of borrowers through the entire process with data collected on how and why things happened--not just that they paid or defaulted. If we have a serious default problem, it is worth studying seriously so that we can determine the best way to attack it. Unfortunately, to date, much of the focus has been on comparative default rates among types of institutions. However, the default rate is a much more complicated proposition than where students enroll.

The risk of default can probably be most directly expressed by student or parent income at the time the loan was made. After that, the activities of the school, lender, and guarantor all combine to increase or decrease the probability of default. If we want to know how well the major participants are doing, we should:

a. Develop a comparative default rate--one weighted for the student population served. Guarantors could provide normative default rates, i.e., agency average rates for different income levels of students. Based on school or lender loan portfolios, a predicted default rate could be developed and then compared

to the actual rate. It would provide a comparative default rate that would show which school and lenders need to be particularly encouraged to reduce their defaults.

b. Identify the impact of past educational records on defaults. This means that we will have to analyze tests and evaluation instruments. The goal is to identify evaluative tools and processes that reasonably predict success. Prospective students should be told what they must do to succeed and be given sufficient information to understand the benefits and risks of investing in their own education.



c. Determine the value of deferments and forbearance at both the lender and guarantor level. Is there a relationship between the frequency of deferments and forbearances and the default rate? In short, how well do they work?

The Proper Emphasis and Lots of It

More research is certainly needed but let's also make sure that it has real value. We need goal oriented research designed to determine why students default and what can be done to reduce defaults.

There are schools, lenders, and guaranty agencies that seemingly serve similar student populations yet have dramatically different default experiences. Why? What do successful organizations do that reduces defaults? What do less successful organizations fail to do or do poorly?

We have had the GSL program for over 20 years and the NDSL program for more than 30 years. Isn't it about time to use research as a tool to find out what works and what doesn't?

The main responsibility for leadership in this area rests with the Federal Government and the guaranty agencies. They have the data and the resources. A major goal of the default prevention program is to work with them to help formulate a research agenda that will provide needed answers in the shortest time possible.

The Proper Emphasis and Lots of It

CHAPTER THREE

Your School Can Be Effective

The Human Touch

THIS MANUAL IS NOT INTENDED TO COVER ALL OF GSL OR TITLE IV PROGRAM ADMINISTRATION. IT MUST BE CLEARLY UNDERSTOOD THAT ALL FEDERAL REGULATIONS, CURRENT AND FUTURE, MUST TAKE PRECEDENCE OVER THE CONTENTS OF THIS MANUAL. SCHOOLS MUST BE IN FULL COMPLIANCE WITH ALL FEDERAL REGULATIONS. SCHOOLS MUST ALSO BE IN FULL COMPLIANCE WITH ALL GUARANTOR SPECIFIC POLICIES AND REGULATIONS THAT GOVERN A SPECIFIC LOAN.

Your School

Your school has a vested interest in working to lower defaults. It also has an obligation to its students to provide both the training that will enable your students to compete in the job market and the basic tools that will allow the student to manage his/her loan repayment responsibilities. Lastly, your school has the opportunity, based on sustained contact, to provide the information and support that will save individual students from the negative consequences of defaults.

Your School Can Be Effective

I. The Human Touch

Given the current operating environment of the GSL program, a student can have every experience possible within the program and the only human beings that students will encounter face to face are at the school. The student can borrow, have his loan handled by a servicer, have it sold to a secondary market, be billed, go delinquent, be dunned by guaranty agencies and collection agencies, have Uncle Sam grab his tax return, have a judgement in court against him and have his wages attached. He can have all of these things happen and never see the other people involved. He will get lots of mail and receive many phone calls but it is quite possible that he will never meet any of those numerous other parties. He will, however, know his school. Private career school students are in constant contact with faculty and administration. That closeness can become the foundation of the default prevention program.

A solid school based financial aid and loan counseling program is far more than default prevention. It's good education, good business and good sense. Consider the following:

1. As noted, the school is likely to be the only (or at least major) place of personal contact. If the school treats the loan as an important event and demonstrates a serious attitude towards it, that is the attitude the student will most likely adopt. Treat it cavalierly or ignore it and the message to the student is that it isn't important.

2. GSLs can be very confusing. There are a lot of actors involved and their behavior is not always in synch. While agency and servicer person-

nel all try to be helpful, they don't know the student and their behavior is also conditioned by their internal policies, operating considerations and profit goals.

The school can adopt a consistent pro student advocate role that works to everyone's benefit. You can explain the program to borrowers, respond directly to their inquiries and help educate them in consumer credit and budget management. You can serve as their advocate helping them to obtain valid deferments and forbearances. The goal is not only to encourage repayment but perhaps more importantly to avoid default. For if a student can avoid default for the first 2-3 years, the collection statistics strongly suggest that they will repay that loan. Avoiding default is good for the student, good for the GSL Program and good for the school.

3. Human nature is fairly consistent; most of us like to shift blame when things go bad. If one of your students defaults, the odds are very good that the student will pass much of this blame to the school. Even graduates can become school critics if they get into a default situation. And you can always bet that dropouts, who may not be too happy to begin with, will blame their default problems on the school. However, if you are able to assume that advocacy role and help students avoid or get out of the delinquency/default mode, you can quickly turn detractors into supporters with long term positive impacts on enrollment.

II. School Administrative Procedures

As the focus of this manual is on default prevention, we have not attempted to address all of the school's administrative requirements under the GSL program, but we have included (in Appendix A) some of the major changes under reauthorization. There are, however, some administrative provisions that have an impact on defaults which we do want to cover.

1. Cross Borrowing

If a student has a prior loan, strongly encourage the student to return to that lender for a second loan. Explain that it is more costly and more confusing to repay two lenders concurrently. If a student cannot or will not return to the first lender, strongly recommend that they choose a second lender that will make loan consolidation possible. This could be a lender that sells to Sallie Mae or another secondary market that has a consolidation plan

Release of Check

or it could be a lender that has a program for buying prior loans.

2. Release of Check

A) First Check Disbursement

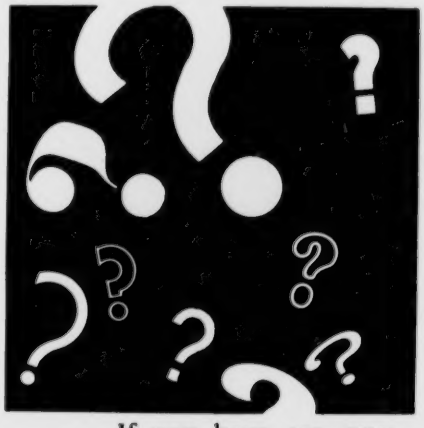
Before you release a GSL check, be sure that the student has met all institutional requirements for official enrollment. If there are procedures yet unmet or documents not yet filed, do not release the check until the student is in compliance. If you release a check to a student who, by your own regulations, is not yet an official student, you may be liable for repayment. You are permitted to release the GSL check up to 10 days before the beginning of the enrollment period. Use great care in doing so. If the student doesn't show up, the full amount of the loan is immediately due. This usually means an instant default as the loan money is long gone.

B) Second or Subsequent Checks

Every disbursement is subject to the same rules. At the time of disbursement, the student must be fully eligible. At a minimum this means that the borrower must be enrolled on at least a halftime continuing student basis and making satisfactory academic progress as defined by school and program requirements.

Use proper care in disbursing checks. And be aware of the following problem signs.

- At the time of disbursement the student has a series of absences that will, if not corrected, result in the student being dropped from school (or falling below halftime). Do not release the check until you've counseled the student and until corrective measures have been taken.
- The check is going to the student for living expenses and you find out that he/she is planning to drop out. Do not release the check until you've confronted the student. Inform him that you will annotate his file and that an immediate drop out could constitute fraud.



If you have any questions, don't be afraid to hold the check while

you ask the lenders or guarantors if they want it released. Time delays, in some cases, can solve problems.

3. Refunds

Adhere to your refund policy. Process refunds attributable to GSLs quickly and send the refund check to the lender with the student's name, address, and Social Security Number (and loan number if known). Inform the student in writing of the amount of the refund and the date. Keep a copy of this notice in the student's file. Note: Schools that delay or improperly compute refunds are viewed as a major problem by guaranty agencies.

4. Late Disbursements

Late Disbursement checks are:

- Checks that arrive at the institution after the end of the loan period for which the loan was made; or
- Checks that arrive during the loan period, but after the student has dropped out or has stopped attending at least halftime.

Late disbursement checks must usually be returned to the lender within 30 days, unless the student has made arrangements with the lender to allow processing by the institution. If the student's request has been approved, the late disbursement check and notice will be sent in the normal way. A school may not use a late disbursement check to pay a student's outstanding account unless this notice accompanies the check.

Note: Guarantor policies differ significantly. To avoid liability, you must adhere to those policies that govern each particular loan.

If the check cannot be processed, the institution must return it to the lender with a notice explaining why it was late (for example, because it arrived after the end of the loan period, or because the student is no longer enrolled on at least a halftime basis). The school must also include:

- The student's date of withdrawal (if applicable)
- A list of charges still due the school. (Charges must be limited to the cost of attendance for the period in which the student was attending at least halftime.)

If the check is returned to the lender, the school must notify the student that the lend-

School Lender Communications

Financial Aid Transcripts

ing organization can redisburse the funds to pay the outstanding bill.

5. School Lender Communications

Reauthorization (Sec 428 (h) (1) (p) H 7943) requires that schools promptly (promptly is not defined) notify lenders (either directly or through the appropriate guaranty agency) of changes to the student's enrollment status or of name and address changes. Federal regulations defining the requirement have not been issued. When they are, it is probable that many guaranty agencies will establish specific guidelines. In the absence of those guidelines we recommend the following approach.

A) Schools should record the student status confirmation report (SSCR) schedule for each of their major guaranty agencies.

B) The school financial aid office should be notified of all major changes in student enrollment status, i.e., graduation, withdrawals or dropouts, or drops below halftime enrollment status. The aid office should also be routinely notified of name and address changes recorded with the registrar or other appropriate school officials.

C) When notified of a change, the aid office should reference the student status confirmation report schedule. If the school produces a status confirmation report for that borrower's guaranty agency within the next 60 days, then the change can be reported via the guarantor on the SSCR.

D) However, if no SSCR is scheduled for the next 60 days, the school should report the change directly to the lender.

Note: If the guarantor's SSCR format has not been changed to capture borrower address information, contact the guaranty agency directly for instructions.

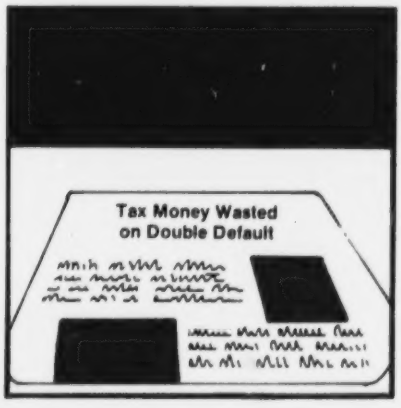
6. Financial Aid Transcripts

A number of schools have adopted a policy of not producing financial aid transcripts (FATs) for defaulted borrowers. This "school service" is withheld from defaulters or from those who owe the school money. Some people assume incorrectly that schools requesting transcripts will not aid the student if it doesn't get the transcript. Unfortunately, it doesn't work that way. Too many schools and colleges are remiss in their production of FATs. Thus, the requesting school may decide that the absence of a transcript is not the student's fault.

Please give FATs high priority. Provide them within two weeks of the request. If a student is in default or owes a repayment on a

Federal aid program, clearly indicate that fact. If there is a question in your mind, suggest that the new school contact the guaranty agency.

THE GSL PROGRAM CANNOT AFFORD DOUBLE DEFAULTERS. THEY PROVIDE THE KIND OF "WAR STORIES" THAT NEWSPAPERS LOVE TO PRINT AND FOES OF THE STUDENT AID PROGRAMS LOVE TO CITE.



III. Recommending Lenders

There are now over 12,000 lenders participating in the Guaranteed Student Loan Program. These range from large national or regional lenders who actively market student loans to small local lenders that make a few student loans to long term customers. While the student has the legal right to seek a GSL from any participating lender, many prospective borrowers will not have any particular lender in mind and will ask the school for recommendations.

The choice of a lender is really the choice of a whole range of possible players in the student loan servicing arena. Some lenders have all of their loans guaranteed by a designated State agency, others work with one of the national guarantors, and still others use a combination of State agencies and national guarantors. Some lenders service all of their own student loans while others use one of the loan servicing companies. Others sell most or all of their loans, which means that the servicing will be done by a secondary market or its designated servicer. The quality of servicing and the dedication to preventing default is not constant among all of the various players. Some lenders and agencies do the minimum mandated by law while others work diligently and effectively to reduce defaults. Your choice of a lender is always a choice of a guaranty agency. Know both the lender and the guarantors and make your recommendations count. Good

Recommending Lenders

Characteristics of a Good Lender
Timeliness
Size
Flexibility--Attitude Towards Students

servicing helps prevent defaults. Poor servicing often causes defaults.

Characteristics of a Good Lender

1. Timeliness

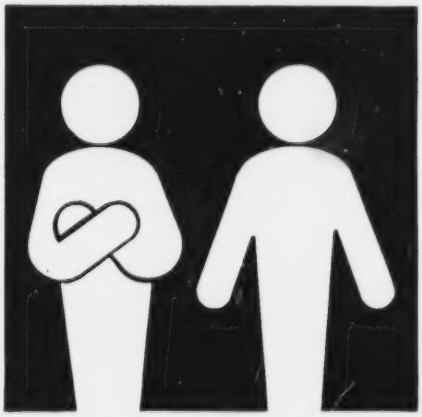
For the GSL program to be effective, the loan must get to the student and school in time. Long processing delays and late checks place an unnecessary burden on both the student and the school. Keep track of average processing periods. Periodically, look at your GSL files and note the filing date of applications and the date the check was received. Schools should identify lenders who process loans in a reasonable and prompt manner and who also provide quality service throughout the life of the loan.

2. Size

While certainly not an absolute, it is usually true that lenders who have built substantial student loan portfolios are also more likely to have developed automated systems to support the loan program and to have an experienced and knowledgeable staff working full time on student loans. Lenders with only a few loans are often less aware of the nuances of the GSL program and less likely to use tools such as forbearances. Recognize, however, that program quality is the decisive factor and recommend quality lenders regardless of size.

3. Flexibility--Attitude Towards Students

Some lenders are very rigid. They make it harder for students to get deferments and seldom grant forbearance. They would just as soon default a loan and get their money back from the guaranty agency as work with students who seem to have problems adhering to repayment schedules. Other lenders are much more flexible and borrower-oriented. They actively recommend deferments and make frequent use of forbearances. They try to ac-



comodate student concerns and solve problems when possible. A flexible lender who is willing to go

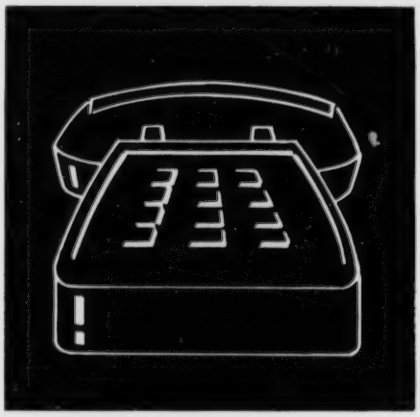
that extra step will help reduce your default rate.

4. Communications

Ask your students to see copies of the letters and documents they receive from lenders. Are they clear and accurate or loaded with legal jargon? Can the student reasonably understand what he/she is expected to do? Does the lender communicate with you? Do they respond to your inquiries and ask your help in skip tracing or counseling delinquent borrowers? Can you get straight answers from them? Do they encourage or resent your participation in the process as an advocate for the student?

5. Other Positive Indicators

- If the lender or guarantor usually contacts you for skip tracing support, that's a good indication that they work hard at finding borrowers.
- If you notify a lender of a dropout or graduate, do they act on it immediately or wait for a student status confirmation report? Given the six month grace periods, lenders that act immediately stand a better chance of getting the student on a timely payment schedule.
- What are the lender's servicing hours? A lender that has an evening and weekend shift for phone calls to borrowers and skip tracing calls is more likely to make contact with the borrower than one that only works "banker's hours."



6. Servicers and Secondary Markets

From the student's perspective, the entity that bills, collects, provides deferments, etc., is effectively the real lender because it is that entity with which the student must work. These organizations should be held to the same test of quality services as a lender. If they do a good job, defaults will decrease. Know which lenders sell loans and to whom they sell. Evaluate the performance of the final servicer. If not acceptable, do not direct students to those lenders.

7. Guaranty Agencies

As previously noted, the choice of a lender is necessarily the choice of the guaranty agency that will guaranty that loan. If you have a choice of guarantors in your area, it makes sense to favor the agency that does the best job. The speed and accuracy of the agency's application process is important. But more important is the quality of

Communications

Other Positive Indicators

Servicers and Secondary Markets

Guaranty Agencies

Conclusion

program administration, particularly in the default prevention area. Is the agency effective in getting lenders to be flexible in working with students? Does the agency have a strong preclaims assistance program for lenders? Do they provide effective skip tracing support? How well does the agency

support its schools and lenders? Is adequate training support provided? Are their written materials clear and effective? Do they have an effective default prevention program? Are they dedicated to maintaining open access to the GSL program?

Conclusion

Preventing defaults is everybody's business. If the lender, the guaranty agency, and the school all do a good job, defaults can be controlled. You will be asked to recommend lenders. If you recommend a good one, you are helping the student, the program, and your school. Know your lenders and make recommendations based on the quality of their performance.

CHAPTER FOUR
Your Default Prevention Program

Recruitment — Pre-Enrollment

The School Financial Aid Office

Overview

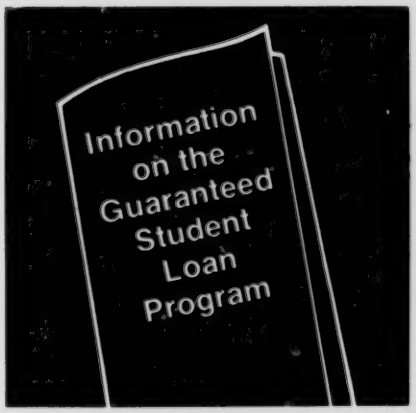
This chapter outlines the Model School Default Prevention Program. The functions are addressed chronologically--from student recruitment through the in-school period to grace, delinquency or default. A comprehensive program is presented. Chapter five helps you select from the full range of options to tailor the program to your school. The referenced student handout materials are presented in Chapter six. Samples of school letters and forms can be found in Appendix A.

1. Recruitment — Pre-Enrollment

All materials that are to be given to students concerning financial aid should be prepared or reviewed by the financial aid officer. Commissioned admissions representatives should be clearly instructed as to the limits of their participation in financial aid matters. They should also be told what they can and cannot do or say. No school needs the bad publicity and possible lawsuits that can result from a student's claim that he was misled as to the nature of his guaranteed student loan.

2. The School Financial Aid Office

A clear and definite distinction should be made between aid office activities and those functions related to admissions, contracts, and payments. A good school aid program should provide the following information.



A. All potential aid applicants must receive a clear statement of school aid policies, application procedures and the types of financial aid available. (A Federal requirement)

B. Withdrawal and refund policies should be clearly stated.

C. Students should be actively encouraged and assisted in first applying for Pell Grants and for any State or private grant programs for which they may be eligible. Remember that determining student eligibility for Pell Grants is now a requirement of the GSL program.

D. All aid applicants should receive fair and equitable consideration for the aid programs under the school's control.

E. School cost of attendance budgets must be clearly stated. They should be lean but realistic. Artificially low budgets will force dropouts while artificially higher ones lead to unnecessary borrowing and higher defaults.

F. The Higher Education Amendments of 1986 clearly restates the intent of the Congress that Guaranteed Student Loans should be the last form of aid recommended to a student. Your aid policies should support that premise; GSLs should be recommended only when a student's need cannot be met from other sources.

G. Students should be encouraged to borrow the minimum amount. With student borrowing, less is better.

H. When recommending a student loan, state and restate that it is a loan and must be repaid. Include a basic description of the GSL application process, the length of time it usually takes to obtain a loan, and the basic provisions of the GSL program. If you include the GSL recommendation on your award letter, it is helpful to have the student sign a statement affirming their obligation, e.g., "I intend to apply for a guaranteed student loan. I know that this is a loan and I fully accept my responsibility to repay it."

3. The Entrance Interview

It is recommended that your school establish a policy requiring borrower attendance at an entrance interview before the first GSL checks will be released. The entrance interviews should be scheduled at the beginning of each enrollment period. Group sessions are appropriate. If you have access to a video recorder, you may want to tape an entrance interview session and allow students who cannot make the group session to satisfy the requirement by watching the tape.

For some borrowers, those that drop out, the entrance interview may be the only opportunity you have to set the student on the right path. Therefore, the entrance interview should cover the basics. The goals and activities to be addressed in the initial interview are as follows:

A. Distribute to each borrower part I of the student manual. We recommend that you also

give the student a portfolio or file to hold GSL loan records. Have the students fill out the lender and guarantor information. You will want to have a list handy with the addresses and phone numbers of at least your major lenders and guarantors.

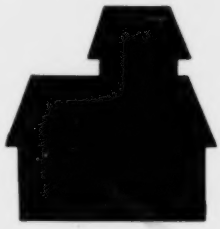
B. Review the student Rights and Responsibilities Document with the group. In some States, guarantors are providing schools with this document. If yours does not, you can use the model in the student Manual.

C. At the conclusion of the entrance interview, students should give you a signed Rights and Responsibilities Statement for inclusion in your student's aid office file. In return, you give the student a release statement authorizing disbursement of the GSL check.

D. Points to emphasize

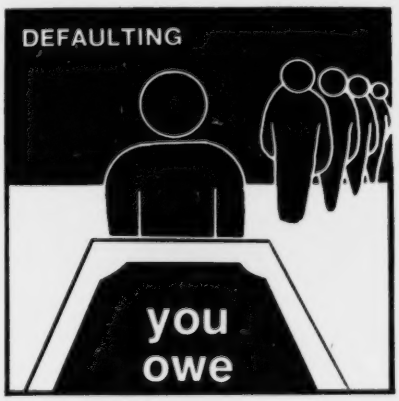
1) Tell the students that the loan they are about to receive must be repaid even if they drop out of school. Explain that students who graduate are much more likely to get good jobs than those who drop out. And emphasize the fact that borrowers with good jobs find it much easier to repay their loans.

2) Explain the role of your school. Explain that the purpose of the entrance interview and of the exit interview that will be conducted before graduation is to give the student the information and tools that they need to manage their own loans and to protect their rights under the GSL program.



3) Provide the student with a reminder statement explaining when second or subsequent disbursements will be issued.

4) Talk about defaults. Indicate that when more



students default, Congress is inclined to make

it tougher to get loans. This would hurt future students. Indicate that your school considers the GSL loan to be a serious commitment and that you expect the students to treat it seriously and to repay those loans.

5) State that your school and the aid office are willing at any time to answer questions and provide assistance even after they leave school. Express your willingness to act as their advocate if they encounter any problems.

6) Briefly review a standard repayment program for 1 or 2 average loans for your student borrowers.

7) Briefly explain deferments and forbearances. You may want to use the approach outlined in the Student Loan Game Plan (Chapter 6). You should emphasize that deferments are rights, but those rights must be protected. If students default, they lose those rights. Explain that forbearances are not rights--the lender doesn't have to grant them. Emphasize the importance of having and keeping a good working relationship with a lender. If the lender believes the borrower is making an honest effort and if the borrower has kept in touch and explained his/her circumstances, the lender is more likely to grant a forbearance.

8) The dangers of default - Reference the "Heads You Win" handout. Briefly explain the nature of credit ratings and how they follow borrowers. A bad credit rating means no car loans, no credit cards or other loans. However, if the borrower has met his/her obligation to both the school and the lender, they both become good credit references and that can help the student get other loans. Explain to the student that even if

they default, they must eventually repay their loan. In almost all cases, defaulters end up paying a lot more than students who repay on time.

9) Repeat your school's willingness to help at anytime at the conclusion of the entrance interview.

If you are well prepared and organized, you should be able to cover this material in 30-45 minutes.

Note: If you have a significant dropout rate, use the complete exit interview format as your entrance interview--repeat it later as the exit interview. It won't hurt graduates to hear it all twice and you need to give dropouts (the highest default group) all of the help you can.

4. Mid-Session Activities

A. Short Term Programs

For students enrolled in six month programs, there will be only one GSL disbursement. You will probably find that the entrance and exit interviews will suffice. However, we do recommend that the GSL reminder notice (Appendix A) be sent to students half way through the program.

B. Multiple Disbursement Programs

For programs of longer duration, there will be two and possibly three disbursements scheduled. Each disbursement presents the opportunity to reinforce the seriousness of the loan. A copy of the disbursement release form (Appendix A) should be completed by school officials immediately before the disbursement date. The student should sign a form before the check is released. Remember that your school is responsible for making sure that the student is eligible for each disbursement when released. This means that the student must still be making satisfactory academic progress and be enrolled on at least a halftime basis as determined by your school. If the disbursement day finds the student in the midst of a continuous stream of absences that would, if continued, drop the student below halftime or cause them to be dropped from schools, do not release the check. Hold the check until you can counsel the student and be satisfied that he will correct the problem. Make sure that you follow the guarantor's specific requirements as to how official drop dates are to be determined. If you have questions, contact your guarantor. The late release require-

ment covered in chapter three also applies to second disbursements. If it appears clear that the student will not make it through their training program, be ready to explain their options, which would include withdrawing before the next GSL disbursement. Lower loan burdens and lower defaults will work to the benefit of the student, the program, and your school.

5. Exit Interviews

SCHOOLS ARE NOW REQUIRED TO CONDUCT (OR MAKE A GOOD FAITH EFFORT TO DO SO) A GSL EXIT INTERVIEW FOR EACH BORROWER BEFORE THEY GRADUATE.

While many schools had attempted to provide this service on a voluntary level, the new mandate covers all schools participating in the GSL program. We can expect that both the Department of Education and the various guaranty agencies will soon provide further clarification as to the exact content of such interviews. Some States are already providing materials that must be distributed to students or signed by students. These materials and requirements may well replace some parts of the model exit interview kit and procedures outlined in this manual. Your school will have to tailor the material to its environment.

A. Scheduling Exit Interviews

If you have almost continuous starts and graduations, it is a good idea to schedule a regular monthly exit interview. If your graduation pattern is more traditionally spaced, set up a calendar for exit interviews that assures that all graduates have at least two opportunities to attend regularly scheduled group exit interview sessions during the last three months of their enrollment. Always schedule borrowers for the next to last interview so that if they miss it, there will be one more group session still available. This will assure a good attendance at the group session and lower the necessary number of ad hoc interviews or mail interviews.

B. Make Exit Interviews a Graduation Requirement

If your school is required to conduct exit interviews, why not require the borrower to attend? Make sure that the requirement is published in school's policy statements. GSL borrowers should be notified of the requirement and a student-signed acknowledgement or promise to attend such a session should be part of the GSL application process. Unfortunately, there will be students who do not attend a group session. You

could predicate the waiver of the requirement and thus, the release for graduation, upon the student providing you with a signed acknowledgement that he had received, read, and understood the exit interview packet that was mailed or handed to him/her.

C. Tone of Exit Interview

Your school considers the GSL loan to be serious business and expects the student to do likewise. The tone can also be somewhat congratulatory as you are dealing with (almost) graduates. You should affirm the school's continuing interest and willingness to answer questions, serve as an advocate, or assist in any other way.

D. The GSL Repayment Game Plan

You should make it clear at the beginning of the exit interview that the purpose of the game plan is to provide the borrower with the knowledge and the tools to be in charge of their student loans. If they follow the game plan, they will protect their rights and avoid potential problems. Walk the students through the Game Plan.

E. Supporting Materials

If you have done an entrance interview and handed out student loan management portfolios, ask borrowers to bring them. If they did not receive them or fail to bring them, hand out new portfolios during the interview. (If you did an entrance interview, it is not necessary to include copies of the material handed out at that session--the exit interview materials cover the same ground in more depth.)

The exit interview kit should contain the following materials:

- The Loan Management Portfolio if/as needed
- Copies of any materials required by the Department of Education or your guaranty agency(ies)
- The Repayment Game Plan including the Deferment, Forbearance and Loan Consolidation Sheets

- An Exit Interview Acknowledgement Form
- Revised Reference Data Sheet (Mail to students before exit interview so that they can complete it at home.)(Optional)
- The worst case scenario
- Sample Letters, Notices etc. i.e.
  1) Notice of Graduation/Termination
  2) Change of Address Notices
  3) Sample letters i.e. problem letter, request for deferment, payment schedule, etc.

As you walk the borrowers through the game plan, reference the other supporting materials. Collect a signed exit interview acknowledgement and a revised reference data sheet if used. Repeat your school's willingness to help.

6. Graduate Follow-up

Given that graduates who have attended the exit interview have already demonstrated a responsible attitude towards both their training and their loan, you may find that two follow-ups are adequate.

A. Procedures

Fill out a tickler card for each graduating borrower and indicate the date of graduation (actual) and the date of the exit interview. Initially place the follow-up card in the tickler file three months from the date of graduation.

B. First Follow-up (90 days)

The three-month follow-up should inquire as to the borrower's success in getting a job and remind him/her that placement support is still available. Remind the borrower that the first repayment is due in three months. Indicate that if the borrower has not already done so, he should contact the lender immediately to obtain repayment materials. Reference the game plan and exit interview materials for information on deferments or forbearances. Once again, repeat your willingness to assist.

Students Who Drop Out

C. Final Follow-up (135 days)

The second letter should remind students that the first payment is due in approximately two months. Instruct borrowers to contact the lender immediately if they do not have a repayment schedule and agreement. Warn them of the consequences of default or delinquency and enclose a copy of the worst case scenario. Again, express your school's willingness to help.

7. Students Who Drop Out

A. Formal Withdrawals

For those students who choose to formally withdraw, there is a good chance that you will be able to make an exit interview part of the withdrawal process. When the student begins to withdraw, your school office (registrar, business office) charged with that responsibility should review a list of financial aid recipients. If the student is on a list, your school should provide a financial aid release form which the student should take to the aid office. When the student appears at the aid office, every effort must be made to see that student immediately and to conduct whatever shortened version of the normal exit interview is possible given time constraints. (For if you don't get them then, you probably won't.) If that is done, the GSL file should indicate that an exit interview was conducted and a copy of the borrower acknowledgement (Appendix A) should be put in the borrower's folder.

B. Other Drops

The majority of dropouts do not go through a formal withdrawal. Some dropouts tell an instructor or a classmate that they are leaving school but many others just stop coming and are eventually dropped by the school based on continued absences. (The closer the watch on attendance and the more effective the follow-up on absences, the greater the effectiveness of your school's retention program.) As soon as the student is determined to have dropped out, your aid office should be notified. The following steps should be taken.

1) The aid office should send the borrower via certified mail, return receipt requested, an exit interview packet with a cover letter offering your school's assistance. The packet should contain a postage paid return envelope in which the borrower is requested to return a signed borrower

acknowledgement statement.

2) If the packet is returned undelivered, and with no forwarding address, skip tracing procedures should be initiated.

3) When a signed return receipt is obtained, it should be filed in the borrower's folder to serve as proof that the exit interview packet was delivered even if no signed borrower acknowledgement was returned.

C. Follow-ups

Once the exit interview requirement has been satisfied (in person or by mail), all withdrawals/drops can be put on the same follow-up schedule. At a minimum, we suggest the following:

1) Ascertain Formal Date of Drop--You should establish an official drop date for GSL purposes. This date will determine refunds and will be reported to the lender and guaranty agency to begin the students grace period. It is, therefore, a legally significant date and must be auditable. If the date was set by your school (as opposed to a formal signed student withdrawal), the date must have been determined in compliance with school policies and signed by an authorized official.

2) Complete a follow-up card for each borrower (Appendix A); indicate how (person, mail) and when the exit interview was conducted. Place the card in your tickler file two months from the date of the official drop. As each follow-up letter is mailed, it should be recorded on the card and the card should be moved to the next follow-up interval in your tickler file. We suggest three follow-ups.

First Follow-up--Two months from withdrawal. A letter is sent containing the following information (see sample letter, Appendix A).

a) Statement of your school's continuing interest in the individual and an inquiry requesting information about the borrower's current circumstances.

b) Reminder that first GSL payment is due in four months and that the borrower should contact the lender.

c) Affirmation of your school's willingness to answer questions.

d) Strong suggestion that returning to school may help the student to obtain a better job and make it easier to pay off the loan.

Second Follow-up--Four months from withdrawal (Appendix A)

a) Reiterate your school's concern and the continuing availability of school services; i.e., placement and financial aid counseling.

b) Stronger suggestion that graduates tend to do better than dropouts and that the student should consider returning to school.

c) Indicate that the borrower should have received repayment explanation and documents from the lender and, if not, should immediately contact the lender.

d) Note that the borrower can return to school part-time now and the grace period clock will return to zero. However, if the borrower allows the grace period to expire, it could take full-time attendance to get a deferment.

e) Reference the fact that the borrower should have received an exit interview packet. Tell them to call your school and request a second packet if necessary.

Third follow-up--Five months from withdrawal (Appendix A)

a) Letter should indicate that the borrower should have a repayment schedule and stress the importance of making that first payment on time.

b) Also stress that if borrowers do not have a schedule, they are to call the lender immediately or they could encounter repayment difficulty.

c) Enclose a list of deferments and a worst case scenario.

d) Reiterate your school's willingness to help.

e) Last chance to re-

turn to school before grace period expires.

Skip Tracing

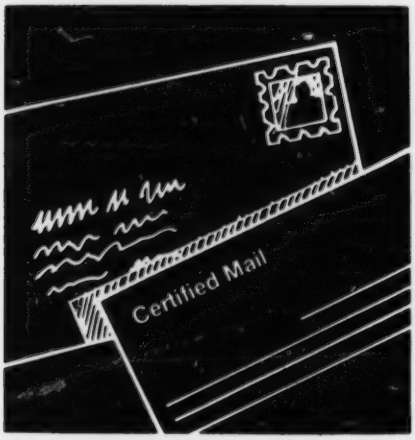
The period between secondary school and "settling down" is a time of high mobility. Young people tend to change addresses quite often. In the GSL program, both lenders and guarantors are specifically charged to conduct fairly extensive skip tracing activities to locate lost borrowers. Skip tracing can be time consuming and expensive requiring interfaces with State and Federal agencies, the use of reverse telephone and street directories and extensive phone contact with references, relatives, neighbors, etc. We do not suggest that the school try to duplicate the efforts of the lender or guarantor. What is suggested is that schools perform two functions in the skip trace arena.

First, schools can undertake certain basic steps to make sure that they maintain the most current address on the borrower. Secondly, schools can and should act as a support agent for lenders and guarantors, as they mount more extensive skip tracing efforts, by providing supplemental reference information as requested.

A. The Basics--Using the Post Office

There are many ways to use the U.S. Postal Service to assure that you have valid addresses on students. However, you should also be aware of the limits of postal service delivery. The post office will deliver to a stated address until/unless someone has notified them that the addressee is not at that address. If a roommate writes a new address on a letter (unopened first class mail only) and gives it to the carrier, that letter will be forwarded. Unfortunately, it does not constitute a formal change of address and the odds are that it will never be recorded at the post office. You can, however, obtain any new addresses that are recorded if you follow the indicated procedures. All important financial aid and default prevention letters should have under your return address the statement "Please Forward--Address Correction Requested." If a change of address is on file, the letter will be forwarded and you will receive a change of address notification (30 cents per). If you say "Address Correction Requested--Do Not Forward," your original letter will be returned to you with the new address indicated (Postage due--22 cents). Given that you have to mail it again at the cost of another 22 cents, the first approach is cheaper. There is also a form that may be used to request that the Postmaster at the last known address

perform a forwarding address "search." The fee for this service is $1.00, but the information provided appears to be the same as that provided when address corrections are requested on return envelopes.



B. Certified Mail/ Return Receipt Requested

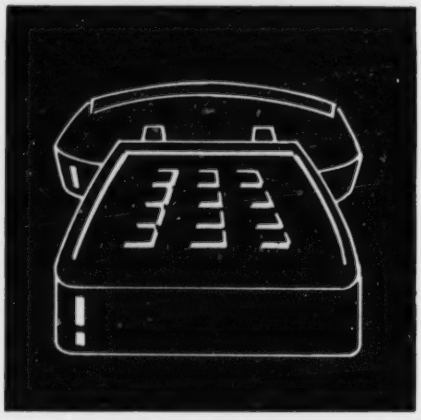
Normal certified mail with return receipt is $1.67 for a one ounce first class letter. Certified means that a signature is obtained at the point of delivery from the addressees or someone at that address who is willing to sign. If the signer is not the addressee, they are supposed to show some ID that would indicate that they live at the address or have some relationship to the addressee; this does not always occur. If the carrier is not able to deliver the letter, it is held at the post office for 15 days and a notice is left at the address. In this case, only the addressee or someone authorized in writing by the addressee can pick up the letter. Once the letter is delivered, you will receive a copy of the notice showing where and when it was delivered and who signed for it. As noted earlier, we recommend that mail exit interviews for dropouts be sent certified mail, return receipt, so that you can obtain the return receipts as proof that the materials were delivered to the borrower. You could send a 6-ounce exit interview packet for approximately $2.50. While certified mail is too costly for every day communications, you may want to consider using it in a few high impact areas, e.g., your first communication to a borrower when you have been informed that the borrower is delinquent or has gone into default.

C. Limited Skip Trace Follow-ups

When you receive letters back that you have sent borrowers with the Post Office designation -"Moved--No forwarding address" or similar language, you should undertake a simplified skip trace follow-up, i.e.,

1. Phone the borrower at the last phone number of record.

2. If no response, check directory assistance to see if they have a new number.



3. Check your files and other school offices, i.e., registrar, placement, etc., to see if they have a valid address on the student.

4. If time permits, call at least one reference or family member and request a new address on the borrower.

5. Document what you've done.

D. Contact the Lender

If you are unable to locate the student, notify the lender that you have lost contact and indicate the last address and phone number that you had on file. If there are specific agreements in place in your State that provide for schools to automatically forward additional student records, do so at this time. In the absence of specific agreements, indicate to the lender your willingness to assist.

E. Provide Additional Data

During the collection, delinquency, or preclaims assistance periods, you may be contacted by the original lender, a secondary market or servicer, or the guarantor. They may request your assistance in locating the student or in helping to convince the student to repay (more on this later). If it is a request for skip trace assistance, you must know whatever limitations may exist on the release of data in your State. If no specific prohibitions exist, you can and should provide the following:

1. Any additional addresses or phone numbers for the borrower that exist in the school's files.

2. Information on additional references gathered by the school on the supplemental data sheet or as part of the placement process.

3. Listings of possible employers from the placement files, i.e., employers that the school thinks the student may work for.

4. Other kinds of basic

student record data, i.e., name changes, social security or driver license numbers, etc.

Many students get lost in the process just because they don't bother to keep you or the lender informed. They are not trying to hide and would repay their loans if contacted. You want to help the lender locate them so that the borrower will have the opportunity to avoid default.

8. Working With Delinquent Borrowers

You have been notified that one of your former students has failed to make scheduled loan payments and is now considered delinquent. What should you do?

1) Don't Jump to Conclusions

For some borrowers, delinquency is a temporary situation; one they can and will rectify. For others, it's the result of bad communications--from the student, the lender or both. The borrower will be contacted by both the lender and the guaranty agency. They will tell the student that payments must be made. You don't need to join the "pay up now" chorus but you should offer assistance that could help the borrower solve his/her delinquency problem.

2) Write the Student

Indicate that you are sorry to hear that the borrower is encountering problems. Ask if he has explored deferments and forbearance. Invite him to make an appointment to see you. Remind the borrower that placement services are still available. State the importance of repaying the loan both for their own future and that of other students. Include a copy of the Deferment/Forbearance document and a worst case scenario. Send a copy of your letter to the lender.

Note: A sample letter can be found in Appendix A.

3) Follow-up with a phone call one week later if you have not heard from the Borrower.

4) Don't Be a Heavy

When a school communicates with a delinquent or defaulted borrower, it may be considered a third party collector and subject to the provisions of the Fair Debt Collection Practices Act, Public Law 95-109. There are some specific prohibitions in the Act that you should be aware of and carefully avoid.

- Avoid any harassment or abuse of the borrower. For example, threats to inform the borrower's employer or any other third party are illegal.

- Take care to avoid any disclosure of the debt to parties other than the borrower. For example, do not send postcard reminders to the borrower that could result in others learning of the delinquency or default.
- Clearly identify yourself in your letter or telephone call to the borrower. Misrepresenting your identity violates the Act.

5) Last Chance Follow-Up

When you send the first delinquency letter, note it on your follow-up card. You should have been informed of the student's default date if the delinquency is not corrected. If not, estimate it from the delinquency date. Put the follow-up card in the tickler file so that it comes up 60 days before the default. (If you are already within 60 days, send it two weeks after your first letter.) A copy of a last chance letter is in Appendix A.

9. Working With Defaulters

Communicate with the borrower as soon as you are informed of the default. The tone of the letter should still be supportive. You are very sorry that the borrower defaulted. The student is in real trouble and both for his/her sake and for the sake of future borrowers, you'd like to help. Explain that while it is your school's policy to withhold services (placement assistance and academic transcripts) from defaulters, you'd still like to help. You'd be glad to set up an interview and arrange for those services if the student will commit to repaying the loan. Remind the borrower of the negative impact of a bad credit rating. (Sample Letter--Appendix A)

CHAPTER FIVE

Your Model Program

Tailoring the Program To Your Environment

How Much Should I do?

Program Duration

Tailoring the Program To Your Environment

In the previous chapter we outlined a comprehensive school based default prevention program. Specific activities were suggested for each phase of a student's academic and/or student loan life. The purpose of this section is to help you determine the best mix of activities for your school.

How Much Should I do?

The exit interview is now mandatory for all schools participating in the GSL Program. Schools must also continue to meet their disclosure and information obligations that remain a condition of participation in Federal aid programs. Individual guaranty agencies may also mandate additional activities. Beyond those requirements, the school must determine the default prevention activities that are appropriate for its circumstances. Two factors that should be considered are program duration and the institution's own default rate.

I. Program Duration

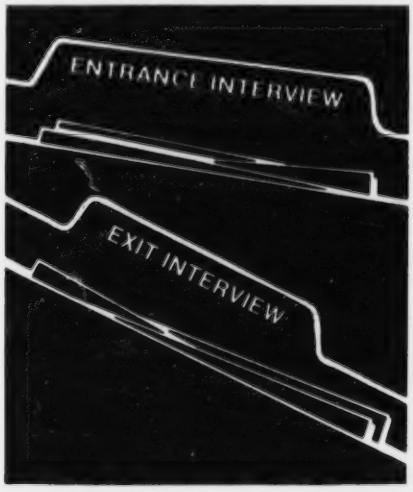
A. For programs of 6 months duration or less that would require only one GSL disbursement, a full default prevention program would consist of:

1. An individual or group entrance interview prior to release of the GSL check.
2. The mid-program follow-up letter.
3. The mandatory exit interview scheduled for the next to last and last months of the program.
4. Providing students with the complete GSL management kit.
5. The full set of grace, delinquency, and default letters.

A more limited approach would be to replace the entrance interview with a handout of appropriate materials e.g., the rights and responsibilities document and to eliminate the mid-term letter and one of the follow-up letters.

B. For programs of longer duration, the optimum program would feature four strong contacts:

1. An entrance interview.



2. A second disbursement or mid-program group

session before the disbursement which should also include the required submission of a supplemental data form.

3. An exit interview with full student information kit.

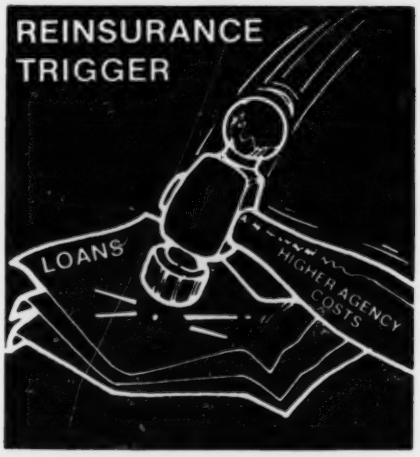
4. All of the follow-up letters.

A more limited version would be to distribute materials before each disbursement and to collect disbursement release forms plus the required exit interview. Again, one or more of the follow-up letters could be eliminated.

C. If a program is longer than 12 months, the same pattern of activities should be performed in the second year. While you could excuse the student from the first year exit interview, it would be beneficial if they attended. There is nothing wrong with repetition, it helps get the message across.

II. Default Rates

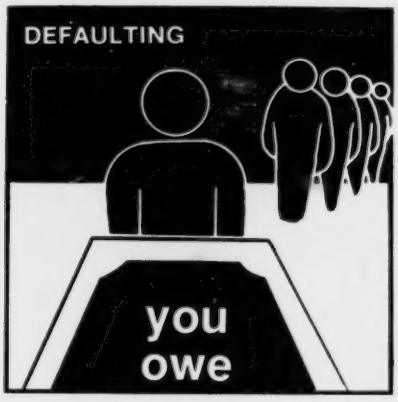
Default rates vary considerably from State to State. In fiscal 1985, the gross national rate for GSLs was 11.5% with individual States ranging from 2.4 to 22.3. Twenty-one States hit a reinsurance trigger in 1985, which means that their default rates were high enough that they no longer qualified for 100% reinsurance on defaulted loans. It is safe to say that each of those States has something of a default problem and will be looking for ways to lower their default rates.



As this manual was being written (May 1987), a number of guarantors had declared their intent to tie insurance fees to school default rates. This means that students attending high default schools will pay more for their GSL loans. If this pattern prevails, students will pay a penalty for school default problems and the schools themselves will be competitively disadvantaged. There has also been legislation introduced (but not yet pursued) that would allow guarantors operating nationally (but not designated State guarantors) to cut off schools that had a default rate over 25%. You should keep this fact in mind in your recommendation of lenders and guarantors. Each school needs to know its own default rate and should also have data on overall default rates for its State (or national guarantor) and for various classifications of institutions within the guarantor's

Tracking Your Loan Defaults

jurisdiction. If these are not automatically provided to you, request them. It's hard to fix something when you don't know the magnitude of the problem.



It is also hard to state what qualifies as a too high default rate for a given institution. The demographics of the student population, the local economy, and the competency and dedication of the lender and guaranty agency will all have an impact on the default rate. But you have to start someplace. If your default rate puts you in the top tier of guaranty fees charged to students, you should implement the full default prevention program. You must reduce your default rate to the absolute minimum if you are to have credibility in arguing that tiered rates are unfairly prejudicial. You also will need to be able to prove to prospective students, guidance counselors, and other referral sources that you are doing everything possible to reduce defaults and lower guaranty fees.

If you don't have a tiered rate, you may want to consider the following guidelines. If your default rate is no more than 5% greater than the State average (but in no case more than double the State average), and your default rate is in the lower half for schools of your type, you may find that the minimum recommendations are adequate for your needs. If your rates are higher than that, you should implement the full default prevention program. If your default rate is in excess of 25%, you have a critical problem and need to immediately implement and indeed expand on the full default prevention program, e.g., accompany each follow-up letter with a personal phone call to the borrower.

Schools that present a profile of high defaults, high dropouts, and low placement percentages for

graduates will, most appropriately, be the prime target group for limitation, suspension, and termination sanctions. **There will, however, be schools in this highest default group that are providing genuine training opportunities to high risk**

populations. If those schools are to avoid GSL program sanctions, they must prove their commitment to default prevention.

III. Other Activities

A. Establish a School Profile

From your main guaranty agency or agencies, obtain the following information. Maintain and update it annually. It will provide the objective data that will document the success of your default prevention effort.

TRACKING YOUR LOAN DEFAULTS

YEAR	CUM # LOANS	CUM $ LOANS	# LOANS DEFAULT	$ LOANS DEFAULT	ST AGENCY DEFLT %	SECTOR DEFLT %	SCHOOL DEFLT %
1986							
1987							
1988							
1989							
1990							
& al							

Note: The number of loans made (and dollars) and the number of defaulted loans and dollars are all cumulative i.e., from the beginning of the program up to the year in question. The default percentages are derived by ED and the guarantor by dividing the dollar amount of loans that have entered repayment into the dollar amount that has gone into default. Make sure that the default rates provided by guarantors meet Department of Education standards. If the rules for calculating default rates change, make sure you've documented the changes so that you can understand the reasons for the change. If you can obtain more detailed national default rates, track them also. You want to know how you are doing compared to similar institutions.

B. Establish An Activity Calendar

In appendix A, we've included a sample calendar. Using it or one of your own, set down your tailored default prevention plan. Follow the progression indicated.

1. Indicate each month in which you have a program start--indicate duration of each program.

Evaluate Your Progress

2. Indicate the default prevention activity that will take place in each start up month.

3. Indicate each month in which you have a scheduled graduation.

4. For each of the two months prior to a graduation month, schedule an exit interview.

5. Indicate those months in which a "normal" second disbursement of GSL funds will take place. Indicate any default prevention activity attached to that second disbursement.

6. Determine what other default prevention activities you want to implement for enrolled students; e.g., a consumer education course. Describe those activities and schedule appropriately.

7. Schedule grace or delinquency/default follow-up monthly--establish the tickler file for these activities.

8. You may also find it helpful to use the calendar as a planning device for rewriting annual brochures, ordering supplies or materials for exit interviews, etc. Merely list the needed activity in the appropriate month.

IV. Evaluate Your Progress

As noted in the chapter on research, there is not a definitive body of work on what prevents defaults. The activities outlined in the "model program" represent an attempt to organize systems that have worked for individual schools.

This is only the first publication of the default prevention project. While we suggested a minimum standard in this chapter, our hope is that all schools will implement the full plan and will, in the next few years, provide continuous feedback that will result in the continuing development of the best possible default prevention program.

CHAPTER VI

The Borrower's Maintenance Manual for GUARANTEED STUDENT LOANS

It Is Your Responsibility to Know and Protect Your Rights

Defaulting on Your Student Loan Can Seriously Damage Your Future

Borrower's Maintenance Manual

INTRODUCTION

Think about buying a car. It is a big investment. Most people have to borrow the money to pay for it. But once they have done that, it is theirs to drive and to use.

If you buy a car on credit, you accept the responsibility to repay the loan. If you want to enjoy your car and get what you have paid for, you must also accept the responsibility to maintain it in good shape. You must keep it tuned up, change the oil, and do repairs as needed. Most cars come with warranties, i.e., the car manufacturer will pay for most repairs during the first 3-4 years if you do the maintenance required to keep the warranty in force.

There are a lot of similarities between car maintenance and student loan maintenance.

It is your loan--you have taken it to buy education. It is yours to use but you must repay it.

Your student loan comes with certain warranties (rights) that are yours if you maintain the loan according to the rules. If you don't, you lose those rights.

Accidents and Defaults

If you total your car, it is gone but the loan you used to buy it doesn't go away. It must still be repaid. If you don't repay your loan, the bank can repossess the car (in whatever shape it is in), sue you to collect what is still owed, and give you a bad credit rating. Sometimes, if the bank doesn't feel that you have any money, it will write off the loan as a bad debt and stop trying to collect.

You can mess up in school, drop out, or be unable to find a job. It doesn't make any difference whether the educational accident is your fault or not. You still owe the loan. If you don't repay it, you go into default, and unlike the car loan, it never goes away. You have not only the lender to deal with but also the guaranty agency and the Federal Government. They can and will sue you, take your car or other property to pay for the loan, give you a bad credit rating, and use collection agencies to find you. They can also take your Federal and State tax returns, block you from other student aid and force your employer to pay them out of your pay check.

They can also wait--if you don't have money this year, you will next year or the year after that, and when they discover that you have some money, they will force you to repay the loan and all of the legal fees, penalties, and extra interest that is part of a loan default.

You don't want to default. It is expensive and will cause you a lot of grief.

The purpose of this maintenance manual is to give you the information, the skills, and the tools that will help to maintain your student loan in good shape and to protect your rights and your money.

READ IT AND USE IT--IT'S YOUR FUTURE!

SECTION I

Getting Started

When you apply for a student loan, you fill out a lot of paper and receive a lot of information and forms from your school, the lender, and the guaranty agency. Some of it can be fairly tough to read and understand.

In this section, we have tried to provide you a description of how the process works. We have identified the organizations and people that you will have to work with and have explained your rights and responsibilities.

If you read it carefully and follow the suggestions listed, you will be off to a good start.

CHECK LIST

1. Get Organized

   Set up a GSL file, put in it your copies of the loan applications, award letters, promissory notes, disclosure statements, etc.

2. Ask Questions

   Make sure you understand your rights and responsibilities. If you are confused, write out your questions and ask the school or lender to answer them in writing.

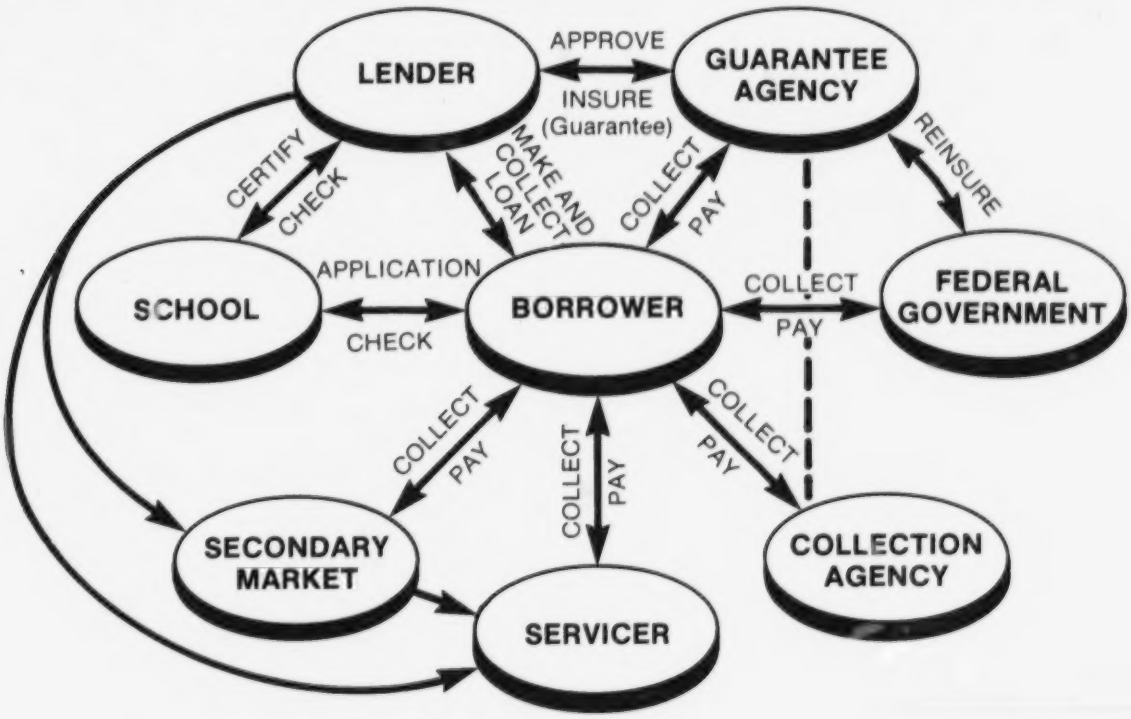
3. Protect Yourself

   Just as with a car warranty, you may need to prove you have done the required maintenance. Copies of letters and documents provide proof. Keep copies and make sure they are dated. Keep a record of important phone calls--the name of the person you talked with, the date, and what was agreed to or explained.

FOLLOW THAT LOAN

We think of loans as two-party transactions--one borrows and one lends. But in business, other people often get involved. Loans have value, they can be sold, traded, or used as collateral (a kind of insurance) i.e., if I don't pay you, you can take what I pledged as collateral.

Thus, the organization you borrow from may not be the organization you repay. Student loans are even more complex because your school, the guarantee agency, and the Federal Government are all involved as well as some other people whom you may meet. Let's look at it.



NOW THAT'S CONFUSING!

Let's see if we can simplify it. There you are at the center of the universe, applying for a guaranteed student loan. You fill out the application and give it to your school. Your school certifies the application, i.e., says that you are enrolled (or will be), in good standing, and determines how large a loan you qualify for (according to Federal rules). The application goes to the bank where it is completed and sent to the guaranty agency. The guaranty agency insures (guarantees) the loan, that is, they promise the lender that if you default, they will pay off the lender and take over the loan. That guarantee is very important, it is the only reason why most students can get student loans without cosigners, collateral, or prior credit histories. No guarantee--no loan! The bank now approves the loan and tells you the terms and conditions, i.e., interest rates, fees, repayment schedule, etc. (all set by Federal law or guaranty agency regulation). The loan check(s) then go to the school to be disbursed to you after the school verifies that you are still eligible. When it comes the time to repay your loan, you work with your lender. Simple--huh? But then, WHO ARE THOSE OTHER PEOPLE?

As noted earlier, loans move around. Your lender can keep and service your loan itself; it can keep ownership of the loan and hire another company to do the servicing or it can sell the loan to a secondary market (another lender or private or public agency that specializes in buying student loans). If your original lender sells your loan, it is out of the picture and you now must deal with the new "owner" (you have no choice in this matter). Both the original lender and the secondary market may also hire servicing companies to handle your loan. You will be told whom to pay and whom to work with on questions or problems. Sometimes loans are sold but stay with the same servicers--sometimes they switch servicers.

There is a very good chance your loan will be sold or assigned. About 50% of all student loans are not serviced or owned by the original lender. We have included a tracking page--write in the name, address, and phone number of your lender and guarantor. If you are informed that your loan is sold or assigned to a servicer, enter the new information.

KEEP CAREFUL TRACK OF WHO OWNS AND WHO SERVICES YOUR LOAN. IF YOU GET CONFUSED, CONTACT THE GUARANTY AGENCY. THEY CAN TELL YOU WHO IS IN CHARGE.

A HELPFUL HINT

If you borrow from more than one lender, you can have a different road map for each loan. Multiple lenders, guarantors, secondary markets and servicers, all at the same time. NOW THAT'S CONFUSING. Do yourself a favor, pick one lender and stay with it.

Is There More?

Of course! There is some Good Stuff.

While you are in school, before repayment begins (the grace period) and during periods of deferment, the Federal Government pays the interest on your loan. This transaction happens between the lender and the government so you won't really see it but it is important--it saves you a lot of money.

And the Bad Stuff.

If you default, the guaranty agency pays off your lender and the Federal Government reimburses the guaranty agency for all or most of this cost. Then they work together to collect from you.

There is more on this later in the manual but you should know up front--they will collect and it will be expensive and a real hassle.

DON'T DEFAULT--YOU CAN'T AFFORD IT.

GSL TRACKING
WHERE'S MY LOAN?

1. Original Lender

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

2. Guaranty Agency

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

3. Secondary Market (New Owner)

Date Notified _____

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

4. Secondary Market (3rd Owner)

Date Notified _____

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

5. Servicing Company

Date Notified _____

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

6. Second Servicing Company

Date Notified _____

Name _____

Address _____

_____

Phone No. _____

Contact People _____

_____

BORROWER RIGHTS AND RESPONSIBILITIES
GUARANTEED STUDENT LOAN PROGRAM

Many students must borrow to pay for their training. Student loans are serious business. When you accept a Guaranteed Student Loan you are accepting the responsibility to repay the full amount borrowed plus interest. If you handle your responsibilities well, repaying the loan will help you build a better financial future. If you don't pay and default, you can do yourself a lot of damage.

Read the following statement of rights and responsibilities. If you don't understand any part, ask your lender or school aid officer to explain it to you.

Borrower Rights

As a student, you have the right to know:

1. What financial aid programs are available at your school and how you can qualify for them.
2. How your financial need was determined and what items were considered in your budget.
3. The type and amount of loan fees that the lender will take from your loan (for these will also have to be repaid).
4. When you will receive your loan and how it will be divided; that is, how many disbursements you will receive.
5. What your monthly loan payments will be and when you will have to start repayment.
6. Your school's policies concerning enrollment, required attendance and good academic standing.
7. Your school's policies on when tuition, fees and other costs must be paid and alternative ways of paying them.
8. Your school's policy on refunds if you should leave school.
9. Information on deferments and forbearances--what they are and how to get them if you need them.
10. An honest and complete answer to any question you may have about your Guaranteed Student Loan.

Borrower Responsibilities

When you borrow, you accept the responsibility to repay the loan. You also accept the responsibility to be honest in your dealings with your school and lender and to keep them informed of changes in your circumstances. These responsibilities include:

1. Completing all application forms accurately and truthfully.

2. Providing additional information or documentation if requested.
3. Informing the aid office of any changes in your family's financial circumstances.
4. Informing the lender each time that your address or name changes.
5. Informing the lender if your graduation date changes or you drop out of school or transfer schools.
6. Informing the lender if you drop below a halftime enrollment status as defined by your school.
7. Knowing who holds your loan. Be aware that your lender may hire a servicer to handle your account or sell your loan to another financial institution.
8. Remember, your first payment is due six months after you are no longer enrolled halftime. A six month "grace period" allows you time to find a job and arrange a repayment schedule.

Important--You are responsible for protecting your rights under the GSL program. You must request repayment schedules when you drop out of school, graduate, or fall below halftime status. You must request deferments and forbearances. Remember--your credit record and your financial future are at stake.

Keeping on Top of Your Loan

Set up a loan file. Keep copies of everything. Each time you write your lender or the guaranty agency or your school make a copy for your files. Ask questions and be sure you get answers.

Do not cash the loan check if you have questions about the loan. Be smart--spend the loan money on educational costs and living necessities. Don't go on a buying spree for--if you blow it--you still owe it. Complete your training program and get a good job.

Your school may require that you complete an acknowledgement form similar to the one on the opposite page.

Read it carefully before signing.

Caution:

If you are in default on another Federal loan or owe a repayment on a Federal grant, you are not entitled to a new GSL.

If you falsify your application, you can be prosecuted for criminal fraud.

BORROWER RIGHTS AND RESPONSIBILITIES

ACKNOWLEDGEMENT

I know that my guaranteed student loan is a loan and must be repaid.

I fully accept that responsibility.

I acknowledge that I have been fully informed of my rights and responsibilities under the GSL program.

I understand that my GSL is to be used to pay for my training and necessary living expenses.

I will inform my lender if my address or name changes or if I leave school, transfer, or drop below halftime status.

I am not in default on any other Guaranteed Student Loan nor do I owe any repayments on prior Federal Student Aid.

Signed _____

Date _____

Social Security # _____

Each time you pick up a GSL check, both you and the school must certify to the fact that you are still eligible for the loan.

This means eligible when you apply and eligible when you pick up the check.

GUARANTEED STUDENT LOAN

RELEASE FORM

Student Name _____ Social Security # _____

Amount of Check _____ Check # _____ Release Date _____

Student Certification

I certify that I am not in default on any prior student loans nor do I owe any repayment on Federal student aid grants previously received.

I know that money received from the GSL program is a loan and I promise to repay it when due.

Change of Address

If your address has changed since your loan application, list your new address here.

_____

_____

_____

Student Signature _____

School Certification

At the time of check release, the above named student was enrolled on at least a halftime basis and in compliance with institutional satisfactory progress policy and requirements.

Signature of School Official _____

RECAP

While you are in school, your basic responsibility is staying in touch.

You must inform your lender when:

- Your address changes
- Your name changes
- You graduate, leave school, or transfer to another school
- You drop below a halftime enrollment status

Use the letter formats included in this chapter.

Keep copies for your file.

HEADS
YOU WIN

REPAY YOUR STUDENT LOAN
A GOOD REPAYMENT RECORD MEANS
A GOOD CREDIT HISTORY
WHICH MEANS

You will be eligible to receive additional loans and other financial aid if you return to school

Your good credit record will help you obtain other bank loans, car loans, credit cards, etc.

If you have problems, check with your lender or school-- you may be able to postpone payment.

TAILS
YOU LOSE

DEFAULTS ARE EXPENSIVE

A STUDENT LOAN DEFAULT MEANS:

No more student aid • A bad credit history

PROBABLE RESULTS

No more bank loans of any kind

No credit cards

No car loans

and it follows you wherever you go !

PLUS

It never goes away

Defaulted loans are owned by the guaranty agency and the Federal Government. If you ever make any money--they will force you to repay your student loan because they can:

Take your Federal Income Tax Refund

Take your State Income Tax Refund

Take part of your wages

Sue you

And make you pay court cost and attorney fees

If you force them to collect,

IT WILL COST YOU A LOT MORE !

SECTION II

ON THE ROAD

If you are going on a long trip, you will enjoy it a lot more if you have planned for it.

You need to know where you are going, how long it will take to get there, how much it will cost, and what to do if you run into problems.

Start with the game plan. It could help you a lot.

STUDENT LOAN REPAYMENT GAME PLAN

The purpose of this game plan is to put you in charge of your student loan. If you understand the rules and follow the game plan, you should be able to successfully manage your loan repayment. That is, you will be able to pay back the loan without overburdening yourself and you will be able to use your student loan repayment as the foundation for a good credit record that will enable you to get other loans.

There are two things that you should remember about repaying student loans.

First--most borrowers can avoid default. If they have a legitimate problem in repaying the loan, there is probably a legitimate solution that would let them postpone payment until circumstances improve.

Second--going into default doesn't get the borrower off the hook. The loan must be repaid and if the borrower ever earns any money, that person will be forced to pay the loan. When a borrower is forced to repay a defaulted loan, it costs more money because of added collection costs, obvious hassles, and lost opportunities due to a bad credit rating. Like the TV ad for car repairs, you can pay now or pay a lot more later. That's why this game plan is important--it could save you money and grief!!

First Step--Calculate Repayment

The minimum monthly payment is $50.00 per month and the loan must be repaid within ten years (120 months). Based on the amount you have borrowed, go to the repayment chart and figure your estimated repayment.

A. Calculate Repayment

Complete the exit interview acknowledgement form. Fill in the information below.

1. Total Dollar Amount of Student Loans _____
2. Number of Lenders _____
3. *Total No. of Payments _____ 4. Estimated Monthly Payment *_____
5. Grad/Exit Date _____ 6. First Payment Due _____

*B. Multiple Loans and Loan Consolidation--What should you do?

If you have borrowed from more than one lender, you could be faced with multiple repayments and higher monthly payments. Fill out the Multiple Loan Repayment Sheet and read Section III on consolidation strategy and decide your best course of action.

Keep in Touch

Many defaults occur because lenders lose track of students. Borrowers move and fail to inform the lender. By the time the borrower is located he or she is delinquent in payments and may already be in default. When this happens, the borrower forfeits his rights and options. Keeping your lender informed makes good sense. It builds trust and a good working relationship that give the lender reason to help you. It will protect your rights and keep you from accidentally defaulting.

STAYING IN TOUCH--THE FIRST STEP IN SUCCESSFULLY MANAGING YOUR LOAN!

Correspondence Time Schedule

_____ Date of Graduation/Exit/or Drop Below Halftime

1. _____ One week later

Within one week of graduation, leaving school, or dropping below halftime, send your lender the standard letter. Provide your current address and phone number, a brief statement of your plans (will return to school, get a job etc.) and request information on repayment and/or deferments.

2. _____ Three months from Exit/Grad Date

If you have not heard from your lender, send a second letter--Keep a copy for your files.

3. _____ Four months from Exit/Grad Date

If you have not heard from the lender, contact the guaranty agency. Use the format for guaranty agency letters. Send a copy to your lender and keep one for your records.

4. As needed--Change of Address

Keep you lender (or servicer) informed of address changes or name changes. Use the standard letter format. Every time you contact your lender with this kind of information, you build trust. It will make the lender want to work with you and help you.

5. As needed--STOP THAT GRACE PERIOD

If at any time during the grace period, you go back to school as at least a halftime student (as defined by the school), immediately notify the lender of the school name and address and the date you enrolled. (The school must be eligible under Federal student aid regulations, almost all are--ask the guarantor if you have any doubts.) If you return to school before the grace period expires, the whole process stops. The grace period clock is set back to zero and it won't start until the next time you leave school or drop below a halftime status. If the lender keeps sending you bills or other statements that indicate they don't know you've returned to school, immediately take the material to the school aid officer. Have them contact the lender on your behalf.

ENTERING REPAYMENT

1. You will receive a payment schedule from your lender which should be a bill or a coupon book. It will tell you how much to pay and the day of the month each payment must be made. Paying on time is important and will keep you from becoming delinquent or assessed a late fee.

2. Make that first payment on time. It establishes your good faith and willingness to repay.

Problems

Problem 1. Bad payment day schedule. The bank tells you that you should pay by the 25th of each month and your payday is the 30th.

Response: Write to the bank and explain your pay schedule and ask that payments be scheduled for the first week of each month. If you know that schedule during the grace period, you can work with your lender then to set a repay date that fits how your income comes in.

Problem 2. Late Start. For whatever reason, you and the lender didn't get together during the grace period. You discover that you have already entered repayment and are three payments late with another payment date coming soon. You can't afford to pay four payments at once.

Response: Write to the lender and send a copy to the guaranty agency (and your file). Explain why you got a late start (moved, didn't get letters, you made a mistake). State your willingness to repay the loan. Send in the largest payment you can afford. Tell the lender how much you can pay per month and ask them to arrange back payments over time or to grant forbearance for the past due amounts. If the lender doesn't agree, call the guaranty agency.

Problem 3. Your monthly payments are too high.

Response: Remember that the minimum payment is $50.00 per month and the maximum repayment period is ten years. Within those limits, there is flexibility. Many lenders have policies that establish higher than the minimum required monthly payments. If you think that your payment is too high, write the lender (copy to the guaranty agency and your file). Tell them how much you make and discuss your expenses. Explain any special circumstances and tell them what you can afford to pay per month. Don't always say $50.00. If you can afford $75.00, say so. It will prove your willingness to repay and will make the lender more likely to agree. Again, if the lender doesn't prove helpful, call and write the guaranty agency. Ask them to intercede on your behalf. Many times they can get a lender to agree when you can't.

Problem 4. You'be been repaying monthly, but for next 2-3 months you will be short of funds and can't make payments.

Response: Call your lender before the due date and explain the circumstances. Tell them

when you can start paying again and volunteer to pay what you can in the next three months. The lender can make arrangements to postpone payments. (See forbearance.) If you've developed a good relationship, most will do so. If the lender won't cooperate, call the guaranty agency and ask them for help. Follow up with a letter if necessary.

THE KEYS

The keys to working with lenders and guaranty agencies are simple:

1. Keep in touch and provide/offer information on your circumstances.

2. Build Trust. Every contact, every letter, every payment should show your maturity and acceptance of the responsibility to repay the loan. When you make promises--keep them, even if it's tough.

3. Be Persistent. The first answer is not always the right answer or the final one. If you think you have a valid point, stay with it. Don't be afraid to ask to speak to a supervisor and don't hesitate to ask the school or the guaranty agency to intercede with a lender on your behalf. Be persistent, but don't lose control. Keep cool and professional. To get respect--give respect! The goal is to make the person you are contacting want to help you solve the problem.

DEFERMENTS

You are responsible for protecting your rights.

Most consumer loans are simple transactions. You borrow--you repay or you don't. If you don't repay, the lender will try to discover if you have assets; i.e., a home, car, bank accounts or a job. Then he will try and legally force repayment from these assets. Why you can't pay is seldom important! Student loans are more complicated. Congress knows that some borrowers will run into problems, so they established a whole series of deferment conditions; reasons why you can get an extension on repaying your loan.

What is a deferment?

It is a legal status that lets you postpone paying on your student loan. You don't have to make payments on loan principal and no interest is charged you. (Uncle Sam continues to pay the interest on your behalf.) Deferment periods do not count against the maximum ten year repayment period. A deferment is a legal right if you follow the rules. If you go into default, you lose that right.

An Attitude Problem

A lot of students unnecessarily default. They were probably eligible for deferments, but never got them because they ignored the rules. No one likes to be asked to repay a loan when he is hurting financially. Borrowers get angry or embarrassed. They don't like talking about being unemployed or about personal, family, or health problems. As a

result they simply hope the loan will go away--it doesn't. In most cases they end up with a lot of grief and eventually much higher loan repayments. They end up hurting themselves because they refuse to cooperate with the lender. Watch your attitude and protect your rights.

DEFERMENT GAME PLAN

1. Review the enclosed list of deferments, keep it in your loan folder. Review it if your circumstances change to see if you qualify for a deferment.
2. You have eight months from your first missed payment before you go into default and lose your right to a deferment. It may seem like a long time, but it goes quickly. So ACT FAST.
3. Write the lender--tell him what kind of deferment you think you are eligible for and explain your circumstances. Request deferment forms. (Keep copies of all letters for your files.)
4. If you do not hear from the lender within one month (or sooner if you are nearing repayment or default), call him.
5. When deferment forms are received, fill them out completely and return immediately. Send any other information you think will support your case. Keep copies of everything.
6. If you receive no response or if you don't like the lender's answer, write to the guaranty agency and send copies of your letters to the lender (and a copy of the deferment form). Ask them to intercede.
7. Stay on top of it until you either get the deferment or are clearly told by the guaranty agency that you don't qualify. Even then, there is one last chance (Forbearance).

FORBEARANCE

Forbearance is another way of extending the time in which you can pay your loan. It differs from deferments in the following ways:

1. You are still charged interest--the lender can require that you pay the interest immediately when due or they can add it to your loan to be repaid later.
2. Forbearance is an opportunity, not a right which lenders have to grant. (That's one of the reasons why building trust and a good relationship is important.)
3. Forbearance for any and all reasons has a maximum time period of twelve months.
4. Forbearance is flexible. Lenders can use it in most circumstances where a borrower is temporarily unable to repay and can set the forbearance time period (up to 12 months) to meet the borrowers needs. A tip--don't ask for more time than you need--once the 12 months are used up, there are no more forbearances. You could

use six months of forbearance in your first year of repayment and six months in your 5th year. Save it until you really need it.

So if you can't get a deferment, ask for a forbearance. Write your lender explaining your current circumstances and tell him when you can restart repayments. Always include a statement of your willingness to repay. If you don't like the lender's response, write and then call the guaranty agency for help. Always keep copies of all correspondence.

IF YOU DEFAULT

Your first contact after default will probably be your guaranty agency. If you are smart, you will try to work with them. They will attempt to work out a repayment schedule with you. If you show a willingness to cooperate, they will try to set a schedule that is not too hard on you. Under new changes to the law, if you make your payments on time for a period of 12 months, you may be eligible to have your loan rehabilitated which means that it could be repurchased by a lender and removed from default. Once again, you would be eligible for deferments or forbearances and could even get additional federal aid including loans if you return to school. The default would also be removed from your credit record.

If you don't cooperate with the guaranty agency, bad things will continue to happen. The more people (collection agencies, attorneys, courts, etc.) that get involved in the collection process, the higher the collection costs. In most cases, those costs will be added to what you owe.

The guaranty agency and the Federal government have the power and the tools to make sure that borrowers repay. They can take Federal and State tax refunds, attach your wages or take your assets. One State has calculated that over 70% of defaulted loans will eventually be repaid or legally excused (death, disability or bankruptcy). A borrower who remains permanently on welfare or stays unemployed may never be required to repay. However, if the borrower begins to make money, he or she will be forced to repay the loan. How much it costs and how painful the process is the borrower's choice. A tip--cooperation is always cheaper and simpler!

THE EXIT INTERVIEW

Your school is required to conduct an exit interview for all Guaranteed Student Loan borrowers before they graduate.

During the exit interview, the important facts relating to repayment, deferments, and forbearances will be reviewed.

- Any changes to the program will be explained.
- You will have a chance to ask questions.
- You will be helped to figure how much you will have to repay each month and when repayment starts.

IT'S IMPORTANT--BE THERE!

At the end of the exit interview, you will be asked to fill out a form like the one followng.

GUARANTEED STUDENT LOAN

Exit Interview

1. Amount Borrowed

While attending this school	Others GSLs
Amount Borrowed _____	Amount Borrowed _____
Interest Rate _____	Interest Rate _____
Lender _____	Lender _____

Other Student Loans _____

_____

2. Typical Repayment Schedules

Sample monthly payments for loan balances typical of our students are as follows:

Amount Borrowed	Number of Payments	Monthly Payment Amount
$2,600	65	$50.00
5,250	120	63.29
7,800	120	94.63

3. My Repayment Schedule

(Calculate your probable repayment schedule from the tables enclosed in your kit. If you have borrowed from more than one lender calculate each monthly repayment separately.)

1. Total Amount Borrowed _____ 2. # of Monthly Payments _____
3. Average Monthly Payment _____ 4. Graduation Date _____
5. First Payment Due (6 months from graduation) _____

4. Rights and Responsibilities

- I understand that if I change my address or name, I must notify the lender within 10 days.
- I understand that if I meet certain requirements, I have the right to defer payments on the loan. These deferment provisions are set forth under the section titled Deferment in My Promissory Note. I understand that if I default on my loan, I lose these rights.

- I understand that if I am temporarily unable to make payments, I may request my lender to grant me a forbearance which can be:
  - a short period of time in which I make no payment, or
  - a longer period of time for making payments, or
  - a different repayment schedule than was first given me.

I know that it is up to the lender whether to grant this request and I recognize the importance of requesting a forbearance before any payments are overdue.

A. Loan Consolidation

If you have borrowed (student loans) from more than one lender, you should explore loan consolidation or refinancing. While this could mean a slightly higher interest rate, it would also allow a longer time to repay the loan and lower monthly payments. If you think you may want to consolidate loans, review the loan consolidation handout and make an appointment to see your aid officer.

B. Department of Defense Repayment

Army personnel may have their loans repaid by the Secretary of Defense in accordance with Section 902 of the Department of Defense Authorization Act of 1981. Questions concerning this program should be addressed to:

Commander
Military Personnel Center
DAPC—PLP
Alexandria, Virginia 22332

C. If you qualify under this program, each year you serve on Active Duty, the Army will pay one-third of the indebtedness or $1,500, whichever is greater. For each year you serve in the Army Reserve, 15 percent of the indebtedness or $500, whichever is greater, will be paid.

Acknowledgement

I acknowledge that I have attended A GSL exit interview where all of the material covered on this acknowledgement form was explained to me. I know that I am responsible for repaying my student loan.

_____

Signature

_____

Date

CALCULATING REPAYMENTS

Most students will have borrowed from only one lender. If that's your situation, you can figure your probable repayment by simply using the chart. You will make only one monthly payment to your lender.

If you have borrowed from more than one lender, you have to calculate each repayment separately.

Fill out the following:

	First Lender	Second Lender	Third Lender
Name	_____	_____	_____
Amt. Borrowed	_____	_____	_____
Begin Repayment	_____	_____	_____
No. of Payments	_____	_____	_____
Monthly Amt. Due	_____	_____	_____

Use more paper if you need it.

MULTIPLE REPAYMENTS

Do all of your loans enter repayment on the same date?

What is the total amount you will pay each month to all lenders?

Can you afford it?

If not, see the section on loan consolidation.

GUARANTEED STUDENT LOAN SAMPLE REPAYMENT CHART

Note: Actual monthly payments may differ from the chart below. Some lenders will round payments to the nearest $5.00 or $10.00 while others may want to schedule repayments in 6 or 12 month time blocks. The chart depicts the lowest possible payment and the longest possible repayment period.

GSL 8 PERCENT INTEREST CALCULATION

LOAN AMOUNT	NUMBER OF PAYMENTS AMOUNT	PAYMENT AMOUNT	FINAL PAYMENT	TOTAL INTEREST PAID
200.00	5	50.00	3.39	3.39
400.00	9	50.00	12.45	12.45
600.00	13	50.00	27.51	27.51
800.00	17	50.00	48.83	48.83
1000.00	22	50.00	26.93	76.93
1200.00	27	50.00	12.08	112.08
1400.00	32	50.00	4.84	154.84
1600.00	37	50.00	5.77	205.77
1800.00	42	50.00	15.31	265.31
2000.00	47	50.00	34.16	334.16
2200.00	53	50.00	12.97	412.97
2400.00	59	50.00	2.41	502.41
2600.00	65	50.00	3.56	603.56
2800.00	71	50.00	17.19	717.19
3000.00	77	50.00	44.53	844.53
3200.00	84	50.00	36.79	986.79
3400.00	91	50.00	45.41	1145.41
3600.00	99	50.00	21.48	1321.84
3800.00	107	50.00	18.20	1518.20
4000.00	115	50.00	36.54	1736.54
4200.00	120	50.95	Even	1914.00
4400.00	120	53.38	payments	2005.60
4600.00	120	55.81	for loan	2097.20
4800.00	120	58.23	levels	2187.60
5000.00	120	60.66	over	2279.20
5200.00	120	63.09	$4,000.00	2370.80
5400.00	120	65.51		2461.20
5600.00	120	67.94		2552.80
5800.00	120	70.37		2644.40

GSL 8 PERCENT INTEREST CALCULATION
(Continued)

LOAN AMOUNT	NUMBER OF PAYMENTS AMOUNT	PAYMENT AMOUNT	TOTAL INTEREST PAID
6000.00	120	72.79	2734.80
6200.00	120	75.22	2826.40
6400.00	120	77.64	2916.80
6600.00	120	80.07	3008.40
6800.00	120	82.50	3100.00
7000.00	120	84.92	3190.40
7200.00	120	87.35	3282.00
7400.00	120	89.78	3373.60
7600.00	120	92.20	3464.00
7800.00	120	94.63	3555.60
8000.00	120	97.06	3647.20
8500.00	120	103.12	3874.40
9000.00	120	109.19	4102.80
9500.00	120	115.25	4330.00
10000.00	120	121.32	4558.40
10500.00	120	127.39	4786.80
11000.00	120	133.45	5014.00
11500.00	120	139.52	5242.40
12000.00	120	145.58	5469.60
12500.00	120	151.65	5698.00
13000.00	120	157.72	5926.40
13500.00	120	163.78	6153.60
14000.00	120	169.85	6382.00
14500.00	120	175.91	6609.20
15000.00	120	181.98	6837.60

RECAP

Remember--the Exit Interview is important. If you can't make your scheduled time, make an appointment to see your financial aid counselor.

Ask Questions--make sure you understand the answers.

NOW IS THE TIME TO PLAN.

You want to avoid problems and protect your financial future.

SECTION III

AVOIDING ACCIDENTS AND HANDLING PROBLEMS

Repaying student loans can be tough--it is a lot of money over a lot of months.

Students do have problems but there is usually a solution.

The next section on deferments and forbearances is very important.

It may well contain the solution to one of your problems.

Read it carefully.

Then read the section on handling problems. It could save you unnecessary grief.

DEFERMENTS, FORBEARANCE, FORGIVENESS, MILITARY SERVICE

Deferments

A deferment is a legal right to postpone payment on your Guaranteed Student Loan provided that you meet the requirements of the specific deferment. During deferment periods, no interest is charged you and no loan payments are required. Deferment periods do not count in the ten-year maximum repayment period. Deferments can be obtained for the following reasons:

I. Continuing Study

1. If you are studying full time at a GSL eligible school. There are over 8,500 eligible schools (no time limit).

*2. If you are studying at least halftime at an eligible school and if you have obtained a new loan (GSL, PLUS, or Student Supplemental) for the same period of enrollment (no time limit).

3. If you are enrolled in an eligible graduate fellowship program (no time limit).

4. If you are participating in an eligible internship program (two year limit).

5. If you are participating in an approved Rehabilitation Training program (no time limit).

If a lender refuses a deferment, check with the guaranty agency. They may be better able to determine the program's eligibility.

II. Public Service

Deferments are also granted when borrowers volunteer to work for certain public service organizations or perform other work that Congress has determined to be in the National interest. These deferments are for a maximum period of 3 years and include:

1. Serving in the Armed Services (Active Duty) or as an officer in the commissioned corps of the U.S. Public Health Service.
2. Volunteering your service in the Peace Corps.
3. Acting as a full-time volunteer under Title I of the Domestic Volunteer Service Act of 1973. (Action Programs)
4. Acting as a full-time volunteer in a tax exempt organization comparable to the Peace Corps or Action programs.
5. Serving as an active member of the National Oceanic and Atmospheric Administration Corps.
6. Teaching full-time in an elementary or secondary school in a defined teacher shortage area.

Note: If you have any questions, first contact the organization you have joined or are thinking of joining. Obtain the deferment forms from your lender and take them to the organization. If the lender turns down the deferment, contact your guaranty agency.

III. Hardship

Congress realizes that borrowers can encounter some hard times and not be able to make loan payments. Therefore, they have established a number of deferment conditions to assist borrowers. These include:

1. Unemployment--Borrowers who are conscientiously seeking but unable to find employment. There are requirements that your job searching activities be periodically reported to your lender (two year maximum).
2. Disability--If you are temporarily totally disabled or are unable to obtain employment because you are caring for your spouse who is temporarily totally disabled (three year maximum).

*3. Caring For Disabled Dependent--If you are unable to secure employment because you are caring for a totally disabled dependent (three year maximum).

*4. If you are pregnant or caring for your newborn or newly adopted child and not currently employed or enrolled at an eligible school. However, you must have been enrolled at an eligible school within the last six months prior to the deferment (6 month maximum).

*5. If you are the mother of preschool age children, just entering or reentering the work force and earning no more than $1.00 over the minimum wage (12 month maximum).

Note: All of the * asterisked deferments are recent additions and are available if you first borrowed for a period of enrollment beginning on or after July 1, 1987.

Each deferment type has its own time limitation. They can last from 3 months to 3 years except for the continuing student deferment that has no time period. Remember, if you borrowed from more than one lender, you have to file deferment forms with each of them.

Forbearance

If you encounter financial difficulty while you are paying back your student loans, your lender may be willing to offer you a "forbearance" period. To apply, you must demonstrate to your lender (or its servicer) that you are willing but unable to make payments during this hardship. If your lender agrees, you may be allowed a short period during which no payments are due. Or, you may be permitted to make lower-than-usual payments.

You should know that--
During the forbearance period, interest on your loan will continue to accrue. Your lender may either require you to pay only the interest periodically, or add the accruing interest to the balance of your loan. Forbearance is granted for no more than six months at a time. Unlike deferment, forbearance is not an entitlement; your lender is willing to allow you to forbear your principal payments; you will be asked to sign a Forbearance Agreement that discloses information on the length of the forbearance and the required payments.

The total of all forbearances granted a borrower may not exceed 12 months.

Forgiveness/Military Service

In some circumstances, your loan can be completely or partially forgiven, This means that neither you, your family or a cosigner would have to pay any portions of the loan that are forgiven. Forgiveness includes:

1. Death and Disability--If you should die or become permanently totally disabled, any amounts remaining unpaid on your GSL will be forgiven.
2. Army or National Guard Service--The Army and National Guard offer student loan repayment programs for new enlistees with GSLs borrowed after October 1, 1975. Here's how it works: for every year of active service your indebtedness is reduced by one-third or $1,500, whichever is greater. In other words, enlisting for three years will eliminate your GSL debt.

You may also get your student loans repaid by serving in the Army Reserves. Every year you serve wipes out 15 percent of your indebtedness or $500, whichever is greater. In a standard six year reserve enlistment most of your GSL debt can be eliminated.

For more information on this program, call your local Army or National Guard college representative.

MULTIPLE LOANS — A REAL HEADACHE

Remember the road map at the beginning of the owner's manual--all of those organizations and arrows. Well, if you have a student loan from more than one lender, you would well have a separate road map for each loan and a whole bunch of confusion. What can you do about it? Let's work it through.

1. Calculate Repayments

   Use the chart and the exit interview materials to figure out how much you will be expected to pay. Calculate each lender separately. If you are married and your spouse has a student loan or loans, calculate them separately. Add up the separate monthly payments. That's the minimum amount expected of you. Each lender acts as if theirs was the only loan you have and requires (at least) the $50.00 per month minimum repayment.

   Example: You have borrowed $2,500 from each of two lenders. Your spouse borrowed $2,500 from a third lender ($7,500 total). Together, you would be expected to pay $50 per month minimum on each loan or $150.00 per month. If you had borrowed the whole $7,500 from one lender, your minimum payment would be $90.00 per month.

2. Examine Your Options

   Can you make the combined payments ($150/ month in the example)? If you can, it may be to your benefit to make the higher payments and pay off the loan earlier. It helps your credit rating and not having those monthly payments makes it easier to get car loans, home mortgages, etc. But maybe those combined payments are too high, what then? You have three other options depending on your circumstances.

   A. Split Payments

      The law requires that you or you and your spouse as a family make a minimum monthly payment of $50.00 on your Guaranteed Student Loans and that all GSLs be paid off within ten years after repayment starts. Lenders can agree to split your payment. In our example you and your spouse could volunteer to pay $90.00 per month with each lender getting $30. The key word is "Lenders Can Agree"--they don't have to. It is their choice. If there are only 2-3 lenders involved or if you and your spouse have borrowed from the same lender, then it may work. Write each of the lenders identical letters, telling them whom you borrowed from and how much. Volunteer the highest monthly payment you can realistically make (lenders see higher than minimum payments as proof of your good faith). If you get the answers you want, fine. If not, consider loan consolidation.

   B. Loan Consolidation

      In 1986, federal legislation was passed that made loan consolidation much easier. There are now a substantial number of lenders and secondary markets that can serve as loan consolidation agents (lenders).

How does it work?

The loan consolidation lender makes you a new loan equal to the total of all the loans you are consolidating. The lender then pays off (on your behalf) all of the other lenders. Result: you have only one loan with one lender.

How do I qualify?

Loan consolidation applies to almost all educational loans: GSL, Supplemental Loans for students (SLS or ALAS) National Direct or Perkins Loans and Health Professions Loans. To be eligible, you must have borrowed at least $5,000 total under any/all of these programs. You must have completed your educational borrowing, i.e., you can't have a new loan application in process and you must not be more than 90 days delinquent on any loan. (It takes time to consolidate loans, you shouldn't be delinquent at all when you start the process.)

Cost?

You will pay a somewhat higher interest rate. It will be at least 9% and could be higher depending on the types of loans you are consolidating. You also lose some of your deferment and forbearance rights.

Benefits.

Depending on how much you've borrowed, you can have longer than 10 years to repay. Your monthly payment will be lower than if you paid your loans off separately.

C. Lender Buy Outs

There is another way to combine loans. Lenders can buy loans from each other. If you have only GSL s and have 2 or 3 lenders, ask them if they would be willing to buy or sell your loans. If one lender buys your other GSL s, you now have only one loan from one lender and your interest rate and the deferment, forbearance, and repayment terms remain unchanged.

3. Strategy

- Decide what you want to do, i.e., split payment, consolidation or buy out.
- Contact your major lender (the one you owe the most). Ask if they can help.
- If not, contact the guaranty agency--explain what you want to do. They can tell you about secondary markets and consolidation programs.
- If you know that one of your loans has already been sold to a secondary market, contact that agency.
- Another source of information is the Student Loan Marketing Association (Sallie Mae), a national secondary market. Their address is:

Sallie Mae
Smart Loan Origination Center
P.O. Box 1304
Merrifield, VA 22116-1304

Words of Wisdom

1. All of These Things Take Time. Start early (even while you are still in school) and stay on it.

2. Make Payments When Due. If repayment starts, make payments on time even if it is a real sacrifice. If you become delinquent, you have probably blown it. No one wants to buy what he/she believes to be bad loans.

3. Don't Default. We have described the steps that guaranty agencies and the Federal Government can take to collect on defaulted loans. If you have loans with more than one guaranty agency, they will both (all) be after you with lawsuits, collection agencies, etc. You won't like it, and you can't afford it.

HANDLING PROBLEMS

So now you are entering the repayment period and you don't have the money or you think you qualify for a deferment.

1. Review the "Game Plan" and "Deferment" sections.
2. Start Early--Write your lender (standard letter format) explaining your position. Ask for help and assistance.
3. Respond Quickly--Deferments and forbearances require paper work--forms that you will fill out and that you will have to ask others (schools, agencies, employers) to fill out for you. Stay on top of it and make sure it is done right. It's worth it.
4. Keep Cool--You want to win, i.e., to solve your problem successfully. The best way to do that is to make the lender or agency want to help you.
5. Be Persistent--The first answer may not be the only answer. Keep asking. If you have problems with one person, ask to speak to a supervisor but stay calm.
6. Contact the Guaranty Agency--They know the program better than anybody else. They can also convince lenders (in some cases) when you can't. Write them using the agency letter format. Follow up with a phone call.
7. Ask Your School for Help--They want to see you succeed and they can work in your behalf.

WHAT THEN

If you contacted the lender and the guaranty agency and still don't like the answer, you need to reexamine the situation.

Maybe what you want can't be done.

- Reread your manual. What can you find that supports or denies your request?
- Evaluate the answers you have been given. Are they consistent? Are people telling you the same things?
- You may not like the answer, but it may well be correct.

If you still think you are right, stay with it. Write to the director of the guaranty agency explaining your case. You can also send a copy of this letter to the regional office of the U.S. Department of Education for your area and/or to your Congressman. Again, be cool and accurate. Nobody pays any attention to people who rant and rave but don't say anything.

Be prepared to face reality.

You may come down to two choices: (1) find a way to pay the loan, or (2) go into default.

If you really can't pay, you may not have any choice, but before you default, read the following case study.

Defaults are expensive and a real hassle. Don't hurt yourself.

DEFAULTS ARE DUMB

There was a TV ad with a car mechanic who talked about paying a litle now to maintain your car or paying a lot more later for major car troubles. Student loans are no different. You can spend a little time and pay a little money to keep the loan in good standing or you can pay a whole lot more if you default.

There is one basic fact: if you ever make any money you will be required under law to repay that loan. You are dealing with the Federal government and State or private agencies that have the authority to make you pay. Even when things are tough, there is usually an answer. Consider the following case.

Sam Smart and Donald Dumb borrow $2500 in July, 1987. Both drop out of school 4 months later. When their loans become due, neither has a job. In fact, they have a tough time and remain mostly unemployed for three full years. Finally, they get good jobs paying $18,000 per year. Let's see what happened to their student loans.

SAM

Sam was SMART. He kept his lender informed of address changes, explained his circumstances, and applied for and received deferments. He received two years' worth of deferments with no loan payments and no interest. He also had to fill out some forms explaining his attempts to find a job. In the third year of unemployment, his deferments were used up but the lender approved a total of 12 months of forbearance. That year, Sam had to come up with $200 interest. It wasn't easy but he managed. When he got his job, he told the lender and for the next five years, Sam repaid his loan at the rate of $50.00/ month which was really easy to handle. He had a good credit rating, a good bank reference and a good job. In total, Sam repaid his $2500 and about $750 in interest--or about $3250.00

DONALD

Donald developed an attitude. He wasn't working, had no money and decided, "screw it." He didn't answer letters and hung up on phone calls. They couldn't get any money from him. But the loan didn't go away. When Donald got his job, the guaranty agency located him through his first tax refund which they took as a loan payment. We asked three States to tell us what they would do in Donald's case. This is what happened.

State A--sued Donald, added $800 attorney fees and $100 court costs to amount owed. On judgement, Donald was forced to pay $50.00/ month for almost 10 years (118 payments). Total interest paid $2580. Donald's $2500 loan cost him $5080.

State B--also sued Donald, added $461.00 in attorney fees and court costs. They garnisheed his wages, which means they legally forced his employer to take money out of Donald's paycheck. To repay the loan, $150.00 per month would come out of each of his paychecks (3 times Sam's monthly payment). They also increased his original interest rate of 8% to 12%. Donald paid off his loan in under three years at this higher repayment rate. In all, his $2500.00 loan cost him $4200.00!!

State C--added court costs and attorneys fees of $825. State C had a strict garnishment law so they were able to take $262/ month out of Donald's paycheck. They also increased his interest to 10% as soon as he went into default. Donald's monthly payment was 5 times greater than Sam's. He paid about $4000 total, compared to Sam's $3250.

So Donald paid from $750 to $2330 more than Sam and that wasn't all. He had a bad credit record. He couldn't get bank loans, car loans, or credit cards. If he wanted to borrow, he had to go to loan sharks and pay through the nose (and he paid them or he wouldn't have had a nose to pay through). If Donald had bought a car, the guaranty agency could have taken it and sold it to pay off his loan. Donald's boss wasn't too happy either. While he couldn't fire Donald because of the wage garnishment, he now knew Donald was a deadbeat so he wasn't about to trust him or promote him.

Sam had a good credit record. Indeed, his student loan lender was happy to make him a car loan and he had no trouble getting other forms of credit.

Two students--same circumstances. Play it SMART! It's cheaper and it works for you.

Defaulting is dumb and very, very expensive!

LETTERS TO LENDERS AND GUARANTORS

Instructions for Students

1. Always date your letters the day that you send them.

2. Mail to your lender or to a designated servicer or secondary market if you've been informed they have your loan.

3. Always list your name as you wrote it on your loan applications. List name changes in item 2. It's a good idea to always list your original name as well as your new name even after telling the lender about a name change.

4. If you know your loan number, include it and always include your social security number. This is how most lenders identify your loan.

5. If you transfer schools, list the new school name and address and the date you will start (or have started).

6. Let the lender know when you drop out, drop below halftime, or change your graduation date. You want to have the full 6 months to work with the lenders on getting a good repayment plan or obtaining deferments or forbearances. If the lender finds out about the change, 4 or 5 months into the grace period, you may not have enough time to work out the best arrangement.

7. Be specific--include all of the information the lender will need to help you.

GUARANTY AGENCY LETTER FORMAT

TO: Guaranty Agency (Name and Address)

FROM: You (Name, Address, Phone Number, Social Security Number, and Loan Number if known)

Identification. I borrowed from (name of lender) on (exact or approximate date). I owe (amount). I want to repay my loan but I need your help to solve a problem.

My situation is as follows:

(Explain your problem in detail)

I have contacted my lender and explained my situation. I have enclosed copies of the letters (if you did) I have sent. I also talked with (name and phone number of person). I was told (explain).

I need your help. What I would like is (tell them what you want--deferment, forbearance, information, new payment schedule, etc.)

Can you help me? I do not want to go into default and I intend to repay my loan but I need your assistance.

(Send a copy of the letter to your lender.)

Call the guaranty agency about a week later to follow up.

SAMPLE LETTER FOR STUDENT NOTIFICATIONS TO LENDERS/SERVICERS

DATE:

TO: Lender or
Servicer or
Secondary Market

FROM: You

Social Security #

Loan #

Phone #

This is to inform you of the following information:

1. I have recently moved. My new address and phone number is listed above.

2. My name has changed. It is now _____ .

3. My graduation date has changed. I will now graduate on _____ .

4. I am no longer in school. My last day of attendance was _____ .
Please send me information on repayment.

5. As of _____, I am no longer enrolled on a halftime or greater basis.

6. I am transferring schools. I will start at _____
(Name and address of school)
on _____ .
(Date)

7. Comments _____

_____

_____

_____

PROBLEM LETTER — LENDERS

TO: Lender (Name and Address)

(Name of Contact Person if Known)

FROM: You (Name, Address, Phone Number, Social Security Number, and Loan Number if Known)

DATE: Today's Date

S ..te Problem. This is to inform you of the following situation (state facts):

I need your assistance. (Make a request--new payment schedule, request for deferment, forbearance, etc.)

I do not want to default. I intend to repay my loan. Can you help me solve this problem?

Sincerely,

(Keep a copy for your records)

Enclose any supporting documentation that helps your case. Keep copies of everything.

GUARANTEED STUDENT LOANS

A Glossary of Key Terms for Borrowers

(This would be handed out at the time a student applies for a loan or during the entrance interview)

Cancellation - There are two kinds of cancellations--full and partial. A GSL loan is cancelled completely when the borrower dies or becomes completely and permanently disabled. A partial cancellation can occur when a borrower works in a specific field, currently--teaching in an area defined as high need or service in the Armed Forces can qualify a borrower for partial cancellation.

Capitalization - A process wherein the lender can allow a borrower to add the interest that was owed during a forbearance period to the original loan principal. This creates a new amount owed.

Default - If a loan remains delinquent for six months, it can be placed in default. The lender is paid off and the loan is now owned by the Federal Government and the Guaranty Agency. The borrower still owes the loan.

Deferment - A deferment is a legal right (under specific conditions) to postpone payment of a guaranteed student loan without cost or penalty. No interest is ever charged to a borrower durring a deferment period.

Delinquent - When a payment is more than 30 days late, a borrower is delinquent and remains delinquent until payments are back on schedule or other arrangements acceptable to the lender have been made.

Disclosure Statement - At the time you receive your loan, your lender had to give you a disclosure statement that listed the amount borrowed and the actual cost of the loan, including interest, origination fees, insurance premiums, etc.

Forbearance - This is somewhat similar to a deferment in that it is a postponement of payment. However, it is not a right. The lender has the option to permit a borrower to postpone principal and interest payments. The borrower is still charged interest. The lender can require that the interest be paid when due or it can allow interest charges to be capitalized.

Grace Period - This is the time period (from six to nine months) from the day you graduate, end your studies, or drop below a half-time enrollment status to the beginning of the repayment period. On most loans today, the grace period is six months long.

Guaranty Agency - Your lender has a contract with a guaranty agency, a State or private nonprofit organization. The "guaranteed" part of a Guaranteed Student Loan means that the Guaranty Agency will buy from lenders any loans that borrowers fail to pay back on schedule, i.e., they guarantee that the lenders will not lose money because of a loan default.

In-School Period - For GSLs the time period from disbursement of the GSL check to the end of the grace period. As long as you are enrolled in an approved school on at least a half-time basis, the grace period doesn't start. If it does start and you return to school before it ends, you are back in the "In-School Period" and the grace period must start all over again when you leave school the next time. The Federal Government pays the interest for you during the in-school and grace periods, and you don't have to make any payments on principal.

Insurance Premium or Fee - This is a fee charged borrowers that is used to create an insurance fund that pays off lenders when borrowers default.

Loan Principal - This is the total amount you borrowed including some program fees or charges that were deducted from your check. You will repay the total loan principal plus interest. (The annual percentage fee charged on borrowed money.)

Origination Fee - This is a fee deducted from your loan that is used to help cover the cost of the GSL program.

Promissory Note - This is the legal contract between the borrower and the lender. It contains all the terms and conditions of the loan. Don't lose it.

Repayment Schedule - A form provided by a lender when a student arranges for payment which lists the amount owed, the amount of monthly payments, and the date when payments are due.

Secondary Market - Your student loan has value. Your lender can sell it to another bank or to an organization that specializes in buying student loans. These are known as secondary markets. (The Student Loan Market Association or Sallie Mae is the largest of these.) If your lender sells your loan, you will then work with the secondary market to repay the loan. As far as you are concerned, the secondary market totally replaces your original lender.

Servicer - Many lenders and secondary markets hire companies that specialize in student loans to handle billing, collections, deferments, etc. These organizations are called "servicers" for they service the loans for lenders. Your student loan account may well be assigned to one of these servicers.

CHAPTER SEVEN

ADDITIONAL TIPS

Better Education Means Lower Defaults

A School Consumer Education Curriculum

School Co-payments

There has been a lot of conversation about loan defaults in the last year. It's been a "hot topic" in a number of State and National association meetings and some guaranty agencies have organized default prevention task forces. Our own project steering committee also produced a list of innovative ideas that could serve to reduce defaults. We have borrowed freely from all of these sources in creating this manual. This chapter attempts to capture some additional ideas that were identified in the course of this project.

I. Better Education Means Lower Defaults

A recurring theme was that any improvement in the training offered would also serve to lower defaults. Schools that offer solid training programs, work hard to retain students, and have effective placement offices, will produce graduates who are both able and willing to repay because they know they made a good investment in their training programs.

II. A School Consumer Education Curriculum

There was a strong feeling that a basic consumer education course would be a valuable addition to any school's training program. Most students have never been taught the basics of budgeting, banking, and crediting. What is envisioned is a short 5 - 6 hour basic course that would cover the following topics:

A. Introducing money management--what you keep is as important as what you make

B. Building a Real Budget--now and after graduation

C. Be a Smart Consumer--tips on what to look for and how to shop

D. Banks, checking accounts and savings

E. The Role and Cost of Insurance

F. Credit Good and Bad

A seventh hour could be added to the course specifically for student loan borrowers. It would serve as the mid-program counseling session. There are a lot of resources available to schools in putting together such a program. Both banks and insurance companies would be prime sources of outside speakers and material. The Career Training Foundation is investigating the possibility of providing materials in this area.

III. School Co-payments

The research strongly suggests the critical importance of getting the student to make that first payment on time. A number of ideas that featured school financial contributions were offered.

These included:

A. Establishing an account for the students while the borrower is in school. The borrower should contribute to the account at the rate of $5 - $10

per month and the school would add some amount to match ($20 - $50) once the account reaches a specified level (enough for the first payment). The school would either release the account to the student to make the first payment on the loan or make the first payment itself (from the account) on behalf of the student. The school-student agreement could stipulate that the money was to be used only to repay the GSL.

B. A second approach would be an after-the-fact reward. Upon proof that the borrower had made the first 2-3 payments as scheduled, the school would reward the student by giving the borrower a stated amount of money--again in the $20 - $50 range.

IV. Training Premium

Another idea that was viewed with favor was a gift certificate concept. Upon proof that a borrower had successfully made the first 6 or 12 payments, the school would issue a gift certificate good for one free course. The certificate could be limited to the borrower or you could allow them to designate someone else as the recipient--potentially a good recruiting strategy.

V. Obtaining Additional References

A. Placement Office

A number of schools have students complete a practice job application as part of their placement counseling. Students are advised to use references that will help them get jobs. This often obtains a better set of references than the GSL applications. Copies of this practice application are given to the aid office for the student's file.

B. Business Office

If the student signs a contract with the institution for monthly payments, make sure that an additional reference sheet is collected. Specify that they are to be different from those listed on the GSL application. You now have a double set of references to support skip tracing, and the collection of institutional debts as well as GSL's.

VI. Withhold Services

A number of schools routinely withhold issuing of academic transcripts or the continuation of placement services to defaulters. This can be counterproductive. A more useful approach is one that states the general rule but seeks always to make exceptions. For example, if the student will make a payment or even promise to do so as soon as employed, then this one transcript or placement service will be allowed. Remember that these policies must be published and be part of the information given the student at enrollment.

Training Premium

Obtaining Additional References

Withhold Services

Accrediting Associations

Audiovisual Products

Other Model Programs

VII. Accrediting Associations

There was also substantial feeling that the national and regional accrediting associations should collect data on school default rates and begin to examine the role of default rates in the accrediting process. It is likely that a definite correlation may exist among high default and low retention and placement rates. Certainly the accrediting associations should examine the implications of allowing schools that have been subjected to limitation, suspension or termination (L.S &T) sanctions to remain accredited. Guilt by association can present a major problem to those schools that are adequately discharging their responsibilities. The role most often identified for the accrediting associations is that of early identification and assistance. Standardized data on school defaults is collected and schools with default rates that were higher than accepted norms should be required to adopt a default prevention plan appropriate to their problem (the bigger the problem, the more stringent the program). The goal is to reduce default rates before schools are subjected to L.S. & T. sanctions which could potentially require their removal from accreditation.

VIII. Audiovisual Products

There are a growing number of videotapes on the market that are intended to be used as a part of an entrance or exit interview. As the effectiveness of any particular tape will depend on how well its approach fits a school's borrower population, the steering committee did not feel that it could or should endorse any particular products. A good lively video can be a valuable part of a group interview. It provides a good change of pace and will get students' attention. Schools are encouraged to review these products and to choose one that best suits their students' needs.

IX. Other Model Programs

In future releases of this manual, the steering committee plans to cite particularly effective school programs and to report in detail, the activities of those schools.

Supplemental Loans For Students (SLS)

New Law

During the 1987-88 school year, the Career Training Foundation conducted over 50 Default Management workshops in 37 states. In every session, participants expressed concern over the direction and impact of the SLS program and their feelings of powerlessness in preventing unwise or unwarranted borrowing. There were serious problems with the SLS program and during the spring of 1988, the Congress addressed some of the most important issues.

New Law

On July 18, 1988 Congress passed Public Law 100-369 as an Amendment to the Higher Education Act of 1965. The stated purpose of the law was to "prevent abuses in the Supplemental Loans for Students Program." Let us look at the impact of the new provisions.

1. Supplemental Means Last

   The SLS program was always intended to be the last type of aid a student should receive. Congress has now codified that intent. Before certifying an SLS loan:

   A. Schools must first determine a student's eligibility for a Pell Grant and, if eligible, the student must apply.

   B. Schools must determine the student's eligibility for a Stafford (GSL) loan, and if eligible, the student must apply (if the student's Stafford eligibility exceeds $200).

   C. The amounts of Pell and Stafford awards—estimated or actual—must be included in the "other aid" calculation in determining a student's SLS eligibility.

2. Multiple Disbursements

   SLS loans will now be multiply disbursed in accordance with the standards that apply to Stafford loans. Depending on program length and guarantor or lender policies, this will mean 1-3 disbursements per loan per year. This change will help reduce the SLS dollars in default substantially and will take away any incentive for either schools or students to favor SLS loans over Stafford loans.

3. Further Limitation on Dependent Student Eligibility

   Dependent students will now qualify for SLS loans in extraordinary (not extenuating) circumstances only. Such circumstances must be clearly identified and documented. Traditionally, extraordinary circumstances have involved situations of family problems (addiction, alcoholism, mental illness) where the expected

family contribution could not, in fact, be made. Documentation must be external, e.g. the student's statement that "Dad drinks his paycheck" is not documentation. Letters from counselors, case workers, ministers, etc. are needed to document the extraordinary nature of the exception. Note however, that any circumstances that would qualify a dependent student for an SLS loan would almost always support a professional judgment recalculation of the parental contribution. You should maximize the student's Stafford eligibility before you turn to the SLS program.

If the parents are refused Plus loans for credit reasons, the dependent student may qualify for an SLS loan. Be sure you understand your guarantor's requirement in this area.

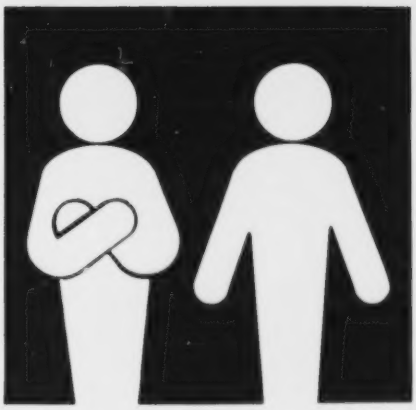
4. Repayment

Repayment on SLS loans (unless deferred) now begin 60 days after the final disbursement (by the lender) of the loan proceeds.

The changes in the law will do much to stop abuse and reduce SLS dollars in default. There are, however, still issues concerning SLS program administration within the school that need to be addressed.

The Basic Problems

Schools have expressed their concerns with the automatic nature of the SLS certification process. Administrators feel powerless to



control SLS borrowing, even in those circumstances where the loan was not needed and/or where the SLS loan would push student debt to a level that made repayment doubtful. Schools also expressed concern over aggressive direct marketing of SLS loans by some lenders that led to increased borrowing levels.

The basic fact is that the SLS program is not need based. An independent student will qualify regardless of income or need if they receive no other aid. If they are aid recipients, their SLS eligibility is offset by the amount of that aid. The basic equation remains: Cost of Education minus Other Aid. If an otherwise eligible student qualifies under that equation, schools must process the SLS loan. That does not mean, however, that schools should not recognize potential problem situations and seek to have an impact on unwarranted or unwise borrowing. Keeping students from getting in over their heads benefits the student, the school and the federal government. You can establish procedures that will serve your students and pro-

The Basic Problems

Problem Solving Methods

tect the integrity of the SLS program. The next section outlines procedures that will help you positively influence the SLS borrowing decision.

Problem Solving Methods

1. Counseling

We often deal with students who do not fully understand the implications of the borrowing decision. SLS loans are particularly complicated. Because they are not subsidized, the student bears (most of) the cost of the program. While the interest rates are better than commercial rates, the amount of debt quickly escalates if the student chooses to capitalize interest. Students need to understand what will happen to their debt, particularly if they anticipate circumstances that could result in deferring SLS repayments for a number of years. Consider requiring (as policy) a personal interview with each SLS applicant before you certify the loan. Review with the student the ramifications of capitalization and provide examples of how debt will increase over 2-4 years. Have the student fill out a detailed budget sheet so that you can review their cost patterns. The goal is to force the student to confront the reality of the SLS borrowing decision and to review the costs and resources available before they decide on an SLS loan. You may want to recommend that the student pay the interest currently in all circumstances where the resource analysis shows the ability to do so.

2. Potential Ripoffs

Every aid administrator encounters a small number of students who are seemingly in school only to manipulate aid programs. You may have heard (but can't prove) that the student wants the SLS loan as a going away present and will drop out as soon as the loan is obtained. Or you may meet a student who is borrowing from every available source and building a debt level that will make repayment a practical impossibility. Develop an involuntary certification form that states that you have recommended against the SLS loan because it is not needed or because debt levels are too high. Include as a check-off item or write in as appropriate, a statement that says that the borrower has been informed that obtaining an SLS loan with the intent of dropping out of school constitutes fraud. Have the student initial all of the appropriate

statements on the form and sign the document. Inform them that a copy of the form will be made available to the guaranty agency. The purpose of the form is not just to document the fact that the school did not recommend the SLS loan; it provides an opportunity to do some very basic and direct counseling with students who you fear are abusing the program.

3. Policy Certifying and Disbursement Schedules

Schools are not required to immediately certify loan applications nor must they disburse loan checks as soon as they arrive on campus. You may establish reasonable schedules for processing loan applications and disbursements. If you have an early dropout problem, reasonable delays in certifying and disbursing loans will help you avoid high default rates and will save students from the penalties of default.

You could require a personal interview for SLS loans and then establish processing schedules, e.g. if a loan application is turned in and an interview completed by the 15th of any month, the SLS application would be certified by the 30th of the month. The ensuing time would allow you to verify continuing eligibility and to fit the loan processing into your office work schedule. You can also set a reasonable disbursement schedule for loans that again allows the school to verify continuing eligibility in a reasonable manner. The law requires that SLS checks be disbursed within 30 days of the date on the check but you could routinely hold such loans for 15-20 days for verification of eligibility. The combination of processing and disbursing schedules could delay SLS disbursements 5-6 weeks into the academic term which would mean that students would have to be bonafide enrollees before they could get a loan.

Ed. Note: Remember that all policy requirements must be published in your catalogue or aid brochure and applied to all students equally. You can make exceptions that benefit students, i.e. document exceptional need and process or disburse an SLS loan earlier than your published dates. It is much harder to justify withholding or delaying benefits to a particular student unless it is tied to specific written policies.

4. Two Loan Program Limit

If you also have Perkins loans available, consider establishing a packaging policy that would limit students to a maximum of two

loan programs. They can have Stafford/Perkins or Stafford/SLS or SLS/Perkins but not all three. Managing 3 loan programs is too much for any student and would almost require that a student consolidate loans. The two program policy allows you to better manage Perkins loans and also provides some leverage in dealing with students. A student eligible for all three programs can be given the choice of a smaller but more attractive need based Perkins or can have the option of SLS loans but no Perkins. If a student has accepted the Perkins loan and later wants an SLS, the school has the option of cancelling the Perkins loan as a condition of certifying the SLS loan. This will help keep down unwarranted borrowing.

5. Revisit The Equation

What cost of education budget are you using? You may want to use the federal budget standard as your basic budget. It will normally be lower than most school derived budgets. A lower budget standard does not stop you from aiding needy students. It does require a little more work. You can still use professional judgment to increase budgets where circumstances warrant. You can also use professional judgment to decrease budgets below the norm, e.g. if you have a student living in subsidized housing or an independent student (over 24) who is living at home, you can reduce the housing component of the budget to the amount actually paid and documented to your satisfaction. If the student lived within a block of the school, you could reduce the travel component of the budget to 0. Remember also that you have no obligation to increase budgets to cover student choices. You do not have to increase the budget to cover a high priced apartment or new car payments. All student aid including SLS is intended to cover necessary and reasonable, educationally related expenses. The key, as always, is a rational approach—consistently applied. You determine the budget that is used to calculate SLS eligibility—not the student.

6. AFDC and Other Welfare Payments

Student aid used for direct educational expenses, i.e. tuition, fees, books and supplies, required travel to school, etc. can not be used by case workers as a justification for reducing welfare eligibility. However, if the aid program duplicates a cost category already covered by welfare, then the recipient's welfare stipend can be reduced. If you have packaged an AFDC recipient with sufficient other aid to cover all of the direct educational expenses, then an SLS loan would in effect be a double payment for room and board, i.e. the loan and the AFDC payment. If that is the case, you should inform the potential SLS applicant that you would feel obligated to inform the AFDC caseworker of the SLS loan as a double payment which of course

would result in the cancellation of the AFDC grant.

Ed. Note: Even though AFDC and other similar payments are grants, they are not "Other Aid" within the context of the regulations as they are direct payments to the student.

7. Working With Lenders

If you have lenders who are aggressively pushing SLS loans by mailings to students, the answer is simple—**Tell them to stop!** Write a letter to the lender informing them that their activities are encouraging unnecessary borrowing and leading to increased default rates. Tell them, that in good conscience you can not recommend them to any of your students. Send a copy of this letter to the guaranty agency. There are a small number of lenders who need to be reminded that the purpose of the program is student aid and that the programs are not to be treated as just another commercial product.

8. Secondary Market Concerns

Make sure that the list of recommended lenders that you provide to your students includes lenders who make both Stafford and SLS loans. If you know that a student will have to utilize both programs, strongly recommend that they get them from a single lender. Before recommending the lender, write and formally inquire as to the lender policies concerning sales of loans. If they sell loans, you should insist that all of a student's loans (Stafford/GSL/SLS) be sold to the same secondary market. If the lender will not make this commitment, inform them that you will not only—not recommend them—but will advise your students not to deal with them because of the secondary market problems.

Back To The Beginning

Much of this chapter has focused on the problems that schools have identified within the SLS program. Hopefully, we have been able to provide some suggestions that will help your school better work with the program.

Remember, however, that the SLS program is an important part of our student aid array. It will be the main program for many independent students and its continued existence is necessary if they are to have the opportunity to succeed. We should certainly recommend SLS loans in those circumstances where they are needed but we must also always seek to make sure that our students understand the full reality of the borrowing decision.

Back To The Beginning

Developing Your Own Default Prevention Plan

Comments—Spread Sheet

Admissions

Drops/Grads

Dependency

Income

The materials that follow outline a specific approach to developing a school specific default prevention plan.

1. Do the Necessary Research

The spreadsheet that follows can be used for both defaulters and dropouts. For defaulters, we recommend that you take at least a 10% sample of all defaulters over the last 3 years from the default lists provided by your major guaranty agencies. Draw a minimum of 100 defaulters or 10%, whichever is greater.

Ed. Note: If you have not received default lists, request them. Guarantors are obligated to provide them.

For dropouts, analyze at least 20% of dropouts from the last 2 academic years with again, a 100 minimum sample.

Complete separate spreadsheets for defaulters and dropouts and draw the samples separately. You may get some overlap, i.e. students who appear in both samples but that should be an accident of the sample—not a forced choice.

Comments—Spread Sheet

The goal is to develop an analytic approach that makes sense for your school and students. Add or change the recommended categories to fit your particular needs. Consider the following:

Admissions

If you use an admissions test for all or a group of students—consider adding test scores as a data element. What does the score pattern tell you about admissions standards?

Drops/Grads

When do drops occur? The earlier the drop pattern, the more work you must do on front end counseling and on drop counseling. If most of your defaulters are grads, you have a different set of problems. Is it an educational issue—i.e. students don't know what to do to stay out of default or are the grads either unemployed or underemployed?

Dependency

You may want to subdivide independent students into single, married or single parents. You want to identify family patterns that may make students more likely to drop or default. You can then tailor responses to address those issues.

Income

You can be as sophisticated as you like in determining income intervals.

Basically, we wanted to distinguish between those living in poverty, the working poor (lower middle class) and those who are middle class and up. A simplified approach would be to consider poverty as $4,000/year or less for a single individual—plus $1,500/dependent for each family member (or qualifying for welfare)—Lower middle class would be $4,000-$7,500 for a single person plus $2,500 for each family member. This approach allows you to treat independent and dependent students the same.

Age

The categories indicated distinguish between young "traditional" students, those still in their 20's, and the more mature returning adult populations.

Program

Depending on your curriculum, you may want to investigate particular program types and lengths. Are your drops/defaulters concentrated in a particular program area? Why? What can you do to change this pattern?

Age

Program

Analyze Default Patterns

Percent of Defaulters who are Dropouts _____
Percent of Defaulters who are Graduates _____

Reasons for Default: Based on what you know and what you think is true—assign percentages (total=100%) to each of the following default reasons for both graduates and dropouts.

	GRADS	DROPS
A. Unemployment		
B. Underemployment (not enough income)		
C. Bad Attitude		
D. Basic economic ignorance i.e. never had bank account, doesn't understand credit, or consequences of default.		
E. Failure to keep in touch with lender or doesn't know who has loan		
F. Ran into problems (personal, financial, etc.) and just stopped trying.		
G. Debt is too high for income		
H. Other (your choice)		
TOTAL	100%	100%

Spread Sheet - Default and Drop Analysis

Students	How Admitted			Grad/Drop				Dependency		Income			Age			Program/Program Length	Other Schools Attended		
	DIP	GED	ATB	Grad	1st Mo. Drop	2-3 Mo. Drop	After 3 Drop	Dep	Ind	Poverty	Low	Middle & Upper	Under 21	22-30	Over 30	School Option	0	1	2 or More
Minimum 10% Sample or 100 Students																			
Total																			
% of Sample																			

Transfer Patterns

There are some indicators that students who frequently change schools are inclined to be non-completors and defaulters. Is that true for your students?

WHAT DOES IT TELL YOU?

Dropouts

Drops normally have it all in combination, i.e. bad attitude, more unemployment, economic and loan program ignorance. If drops are your problem, the only way to address it is by a drop prevention and education program as outlined in the Drop-Default Section.

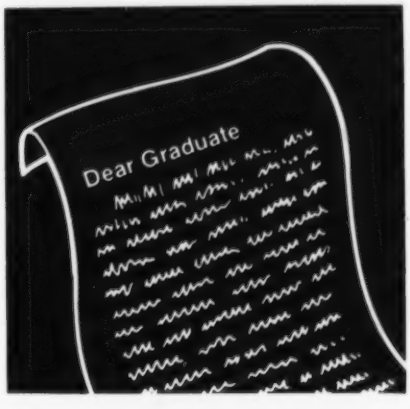
Graduates

A. Unemployment and Under-employment—
The basic question is what can you do educationally to make them more employable? Beyond that, the loan counseling approach should emphasize deferments, forebearances, and problem solving. Follow-up after graduation is necessary to make sure they obtain needed help.

B. If debt levels are too high, you need to look at counseling, packaging policies, use of part-time jobs etc. What can you do to get them through school with less debt? You'll also want to focus on loan consolidation to get their monthly payments to a more manageable level.

C. Economic Ignorance—
If you have substantial numbers of poverty and low income students, you may need to make basic economic skills a part of your curriculum. If they can't write a check or understand take home pay or make a budget—they won't be able to repay their loans.

D. Program Ignorance
Not understanding the consequences of default, not knowing how to get deferments, or not understanding how student loans work are frequently cited problems. They are correctible—good counseling, follow-up after graduation, and good entrance and exit interviews and materials can address these issues successfully.



E. Failure to Keep in Touch
If many of your students' loans are being sold or serviced by other than originating lenders, confusion will often occur. You need to emphasize this fact and give students help in this area.

Transfer Patterns

Dropouts

Graduates

Priority Planning

F. Attitude
If borrowers understand that they will be forced to repay and understand the extra costs, hassles, and the impact of bad credit, attitudes will change.

ESTABLISH PRIORITIES.
List your 5 top priorities in lowering defaults—the 5 areas you'll focus on first.

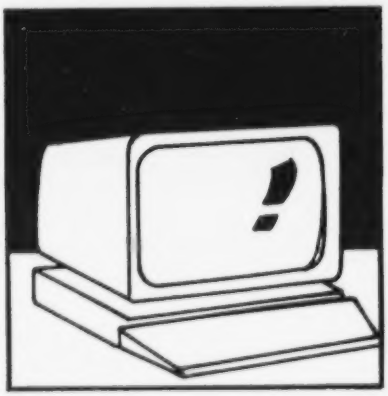
1. _____
2. _____
3. _____
4. _____
5. _____

What specific things will you do in each area:

A. Whose support and cooperation do you need to bring it off?
B. What resources do you need?
C. What problems do you anticipate and how will you solve them?
D. How can you evaluate success? List 2-3 objective measurements of success for each priority area.
E. Fill out a Priority Plan Sheet for each area.

Priority Planning

1. State Goal
2. Identify Target Audience
3. List all specific activities—Build a 12-month calendar of those activities
4. What other offices or people must be involved to reach your goal?
5. What resources do you need, e.g. staff, equipment, computer support, access to classrooms, materials, etc. Plan in detail. Differentiate between existing resources and new resources.
6. What problems do you anticipate and how will you solve them? Remember, it is easier to obtain resources when the cost-benefit picture is clear. Look at lost revenues because of dropouts or late aid awards. Evaluate the threat posed by high default rates.



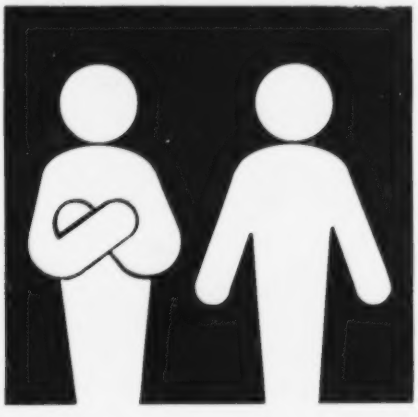
7. Establish an evaluation plan and evaluation criteria. Obtain feedback from students. It will take at least a year and probably more before default percentage rates will drop—so initially focus on interim measures, i.e. fewer dropouts, more placements, more students in touch with lenders, etc.
8. Review plan annually with all those involved and revise and improve.
9. Document everything you've done for program review purposes.

A Special Focus on Dropouts

Dropouts are much more likely to default on student loans than graduates. Most drops are without employable skills, and, almost as important, they don't think they should have to repay the loan as they received "nothing" in return. If you have a large drop population, they probably constitute a significant part of your default population. Lower the drop rate and you lower the default rate.

Focus on Dropouts

A. Evaluate Recent Dropouts
Take a good sample of dropouts from the last two years; what are the characteristics of these students? How do they compare to a similar profile for graduates in the same time period? Based on what you know, can you characterize the reasons behind the dropouts? The goal of the evaluation is to produce profiles of high risk students that can be used to identify those students during the admissions process.



B. Evaluate Admissions Standards
There will be a continuing push for more accountability in admissions procedures—from accrediting agencies and from the federal and state governments. Open access requires that, as a country, we give students a chance. It does not require that we ignore reality. It will not be enough to say that you have an evaluation process or use a test. You will have to be able to demonstrate that the process is meaningful. Can you prove a correlation between test scores and success? Do your standards encompass all students or just Ability to Benefit Applicants? Are your standards clear enough to be understood by a program reviewer? Are they consistently followed? If you are admitting a segment of students who have almost no chance of making it, they can cost the school its financial aid eligibility. Revisit your admissions standards; make sure you can defend them and live with their impact on loan defaults.

C. Build A Retention Plan
1. Identify High Risk Students
While your retention plan should encompass all students, you should also seek to identify your high risk population. There are three main ways to identify potential drops.
a. At Admissions
From your evaluation of dropouts, you should be able to draw profiles of high risk students. These should be identified as part

of the admissions process and flagged for special follow-up and counseling.

b. Self-identification
Enrolled students should be encouraged to seek help and given clear instructions on where to find it.

c. Ongoing Identification
Faculty and staff regularly identify problem students from classroom difficulties, attendance patterns, acting out, etc. You need a formal mechanism to assure that these situations are reported and the students identified as high risk for pro-active intervention and support.

2. Assign Responsibilities
Lowering dropouts require problem solving. Students drop because they have personal, financial, educational, or family problems. Lowering drop rates will require calling on all the resources of the school and many resources outside the school, e.g. public welfare and health agencies. An umbrella approach that brings together key people has the best chance of succeeding. Specific roles and assignments must be determined and a mechanism for monitoring effectiveness built in to the plan. Consider the following:

a. Establish a Default Prevention Task Force
This group should be responsible for overall planning and monitoring. It should include key people from instruction, student counseling, financial aid, placement, etc. The chair should be the school director or a high level designee. The more clout, the greater the effectiveness. The chair must be absolutely committed to having it work.

b. Designate/Hire Student Retention Counselors
The task force determines direction and assures overall school support but specific individuals must do the work. The counseling/retention office is a resource center. While counselors work with individual students, they are also responsible for making sure that the student is connected to and served by other offices within and outside the school. They set up appointments, prep the student on what to say and do, and followup to make sure that services are provided. It's labor intensive work; it can take many hours of effort to keep an individual in school. The designated retention counselors are primarily involved in the problem solving aspects of retention.

c. Spread the Contact Workload
The most elemental part of the retention effort is simply letting students know that there is an individual who is concerned

with their welfare and then putting that individual in a position to help identify problems before they get out of hand. Consider involving as many administrators, instructors, and staff in this process as possible. If everyone competent to handle such a role took responsibility for 10-15 students and made an effort to talk to those students at least every other week, you would have an effective support network. Obviously, it would make sense to assign your most effective people to the highest risk students. The main role of these student advisors is to provide a little T.L.C. (Tender Loving Care) to make school an even more personalized experience and to be in a position to direct students to appropriate sources of help when problems arise. Each retention counselor could work with a team of student advisors and would coordinate the overall effort.

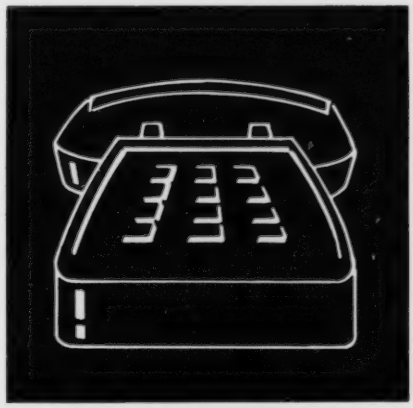
d. Specific Responsibilities and Accountability
The overall plan must assign specific responsibilities throughout the school. If a student needs a part-time job, that's probably placement. If outside social agencies are needed, that could be the retention counselor, financial aid or both depending on the kind of agency. Other kinds of financial problems could involve accounts receivable as well as financial aid. Specific roles should be clearly delineated and a mechanism for accountability built, i.e. what did you do and did it work?

e. Anticipate and Confront Problems
Many dropouts have a history of failure that is easy to spot. When confronted with a problem, they quit. If this describes a lot of your drops—address the issue directly. Orientation sessions and, if possible, the early days of classroom instruction should focus on motivational issues and behavior change. Confront students over patterns of failure. Emphasize success and provide constant reinforcement for it.

D. Those Who Don't Make It
Some students will still have to leave school because they have problems that just can't be solved at that time. Others should leave because they don't have the interest or aptitude for the particular program. We will always have non-finishers. One major goal of the retention program is—**No Walkaways!** If students leave, you want them to withdraw. You want the chance to help them stay

in school, or, you want to help them leave in the most positive way possible. Remember, unhappy drops are almost sure bets to default. Part of your default prevention effort should be an emphasis on out-counseling and follow-up. Consider the following:

1. Placement
   Why not offer job placement assistance to drops? Any job is better than no job at all: If they have income, they are able to repay their loans and are less likely to default.
2. Educational Placement
   If you have the capability, include career and educational counseling for withdrawing students. You may be able to administer interest inventory tests and recommend other programs or schools to the student. If they succeed anywhere, it's better for them and better for you.
3. Financial Counseling
   Drops leave owing student loans and, often, debts to the school. Financial exit counseling makes them aware of their responsibilities and can help keep them out of trouble on their student loans.
4. Follow-up
   Keep in touch with your drops and withdrawals for 6-12 months after they leave school. These are the biggest problem times for potential loan defaulters and intervention by the school can keep them out of trouble. Continued contacts also lead to reenrollments as many student problems get resolved over time.



REMEMBER
If dropouts constitute a big percentage of your defaulters, you can't lower defaults without reducing drops.

1. What kind of review will you get?

Legislation is still pending that would require that certain high default schools be targeted for review. However, most guaranty agencies are anticipating this requirement by substantially increasing their program review staffs and efforts. The Federal Government is also dramatically increasing its own program review staff. In good part, the kind of review that a school receives will be determined by what the program reviewer expects to find.

The USED "School Site Review Guide" recommends that all program reviewers do a considerable amount of research before they schedule a school visit. Reviewers were advised to develop a "comprehensive working profile" of a school that would include: loan application reject rates and reasons; loan volumes and average indebtedness; default rates; school confirmation status reporting accuracy and timeliness and school refund processing frequency and timeliness. Reviewers were also advised to examine copies of recent program reviews and audits and to check with regional USED offices and the Office of the Inspector General for information on student complaints or investigations in process. Reviewers were also advised to obtain and scrutinize school catalogues and policy and procedures manuals. The intent of the prior review is fairly obvious; reviewers are to focus on problem areas. If the reviewer comes to a school expecting to find problems in a particular area, human nature says that he/she will look until the problem surfaces. What kind of profile will your school present? You may want to gather all of this information yourself and draw your own profile. If you were a reviewer, where would you anticipate problems? What can you do to improve this area and how can you communicate that improvement to the program reviewer?

2. Areas of Concern—Timely Compliance

Much of the program review will focus on timely compliance with rules and regulations. Reviewers will be looking at key date sequences to determine if a school is in compliance. A school should have clear date records of the following transactions:

A. Date Loan Check Received by School

Many of the refund and reporting requirements key off the date the check was received. You can not rely on the date the lender placed on the check. You need to log in all checks to meet the federal requirement and to give yourself the maximum processing time.

B. Date Check Negotiated (Endorsed)

This means the date the check was signed by the school or credited to a student's school account or the loan check was given to the student. Reviewers look to identify the date on which ownership of the loan proceeds transferred hands.

C. Financial Aid Transcript (FAT) Requirement

All FAT's must be logged in; all required FAT's must be on file within 45 days of the day that a check was received or the school must return the check to the lender.

D. Ineligible or Non-Enrolling Student

If a student does not enroll or is otherwise ineligible, a school must return the check to the lender within 30 days of the determination of ineligibility or non-enrollment.

3. Refund and Separation Dates

A. Graduates

For graduates and program completors, the separation date is the last day of classes attended—not the graduation date.

B. Dropouts

For dropouts or non-returnees, the school must report the actual date of last attendance (if known) or the administratively determined last day of attendance in accordance with school policy. If a student does not return after a holiday period, the last day of attendance is the last class day before the holiday or term break. If a student does not return from a leave of absence, the notification cycle runs from the date of no return but the separation/refund date reported is the first day of the leave of absence.

C. Refund Requirement

Refunds must be paid within 30 days of the school's determination that a student is no longer in school or has fallen below halftime status.

4. Reporting VS Refund Dates

Schools can report status changes on a month and year basis. However, the dates used to calculate refunds must be day/month/year specific.

5. The Whole School Approach

Program reviews are not restricted to the financial aid office. Administering Title IV Funds is a school responsibility and reviewers understand that functions are split between offices. Schools must build the kinds of administrative interfaces

that support the Title IV Program requirements. The following are examples of potential problem areas:

A. FAT Coordination

Students do not always report the same information to all offices. If the admissions or registrar's file show prior postsecondary attendance, the school must have an FAT on file even if this information was not reported on the aid application.

B. Check Release Eligibility

The determination that a student is enrolled halftime and making satisfactory academic progress must be made in a reasonably timely manner. Schools that use "old" eligibility data open themselves to liability. The key is reasonableness relative to the school's normal policy and practices, e.g. if a 2-day-old enrollment run is available in the registrar's office, the aid office could not get by with using 2-week-old information. However, if the 2-week-old information was the most recent and in keeping with the school's normal practice, it could be argued that it is reasonably timely.

C. Determining Dates

The trigger date is always the date the school first officially notices something (or should have), e.g. when the registrar or attendance office receives a withdrawal form or makes the decision to administratively withdraw a student, the 30-day refund period begins to run. The school can't extend the period because it takes 3 weeks to notify the aid office or business office to process a refund.

6. Be Prepared

Organize a meeting of all of the offices that could be involved in a program review. Discuss prior audits and reviews with particular attention to adverse findings and suggestions for improvement. Spot check some aid records to determine if interoffice communications problems exist in the FAT, refund, or check disbursement areas. If you believe you have potential problems, conduct your own internal program review and establish the required procedures. It will be much easier to argue for lessened liability if you can demonstrate that you have already corrected the problem.

Financial Aid Transcripts

Do you have a problem?

Needed

Miscellaneous

Packaging

Effective July 1, 1988, you must have a Financial Aid Transcript (FAT) on file for each aid recipient who had reported prior postsecondary attendance before you may disburse any Title IV aid funds* or even certify a PLUS or Parent Loan.

Money disbursed without a FAT becomes a potential school liability. Program reviewers will look at school records—not just financial aid office records. If the admission application or registrar's record indicates prior school attendance, a Financial Aid Transcript is required.

This can raise a serious problem for schools who have internal communications problems. A number of schools have found that students do not report the same information to all of the offices. They may send in an academic transcript after they've started school or may report different information to financial aid and admissions.

Do you have a problem?

Take a sample of aid applicants. Compare the admissions, registrar, and aid office records. What discrepancies exist? How many more FAT's should have been collected? What kinds of interoffice procedures or centralized record keeping must be built to assure that the aid office is informed of all prior school attendance on record anywhere within your school?

Needed

1. An internal notice process that assures that financial aid is notified of all prior postsecondary attendance.
2. An effective FAT tracking system that assures that all required FAT's are obtained in the shortest possible time frame.
3. A fail-safe hold or block system on disbursements or crediting student accounts—i.e. no dollars disbursed or transferred until all FAT's have been obtained and evaluated.

REMEMBER

If all required FAT's are not obtained within 45 days of the school's receipt of a loan check, the check must be returned to the lender.

**Schools may continue to assume the risk of making the initial Pell or campus-based disbursement pending receipt of financial aid transcripts.*

Miscellaneous

Packaging

For many schools, the only aid resources available are the federal and state aid programs that mandate equal disbursements of aid awards. However, if a school has private or institutional aid funds available that are not subject to the equal disbursement requirement, it is possible to develop packaging strategies that will help lower loan defaults. If you can identify high risk students, i.e. those most likely to drop out and/or default, you could front load the aid package. For example, if you intended to give them $750 in institutional grant money for the year, all $750 could be put in the first term award with the condition that no loans could be applied for until sec-

ond term (or sometime later in first). It is a shared risk approach—on an annual basis, the student who makes it through the year would get the same amount of grant aid funds that they do today; it would merely be divided differently. However, the student who didn't make it and dropped out during the first term would have had all of their grant money but no loans. If the early dropouts constitute a large part of your default problem, a shared risk front loaded packaging approach may do a good deal to reduce your loan defaults.

Contact Lists

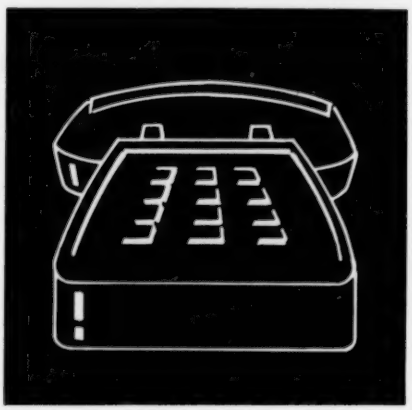
Borrower patterns are fairly consistent at most schools. If you are typical, you will have a maximum of 3-6 lenders who will make the bulk of your student loans. You will deal regularly with from 1-3 guaranty agencies. There will be a number of other lenders or guarantors each year but, basically, you know who will regularly work with you and your students.

Lenders also have patterns, e.g. if they use a servicer, it is generally the same one each year. If they sell to secondary markets, it will normally be only 1 or 2. **Ed. Note:** *Be sure that they sell all of the same students' loans to only one secondary market. Selling one individual's loans to different secondary markets increases confusion and can lead to default.* If you know your lenders and guarantors, you know their general way of doing business and can predict what will happen to a student loan with some accuracy.

Prepare a contact list for your students. It should contain the names, phone numbers, addresses, and contact people for all of the lenders, guaranty agencies, servicers, and secondary markets your students will probably encounter. You may also want to include your regional office of education. Make sure that you list regular toll lines as well as 800 numbers as the free lines often seem to be busy.

Leave some blank lines on the bottom of the list so that students can add their lender or guarantor if it is not included. You may want to have available a listing of all the guaranty agencies in the country. If students know who they borrowed from and the state the lender was in, the guaranty agency for that state will be able to provide lender names and addresses.

You may want to give out a copy of this contact list when you certify a loan. Circle the lender and guarantor. Later during entrance and exit interviews, you can also have students circle the names of secondary markets and servicers as appropriate.



Contact Lists

APPENDIX A

Appendix A contains samples of forms and handouts for students. It also provides a number of sample letters that can be sent to students during the grace and repayment periods. Schools may reproduce any of the materials included in the manual or in appendix A. Schools are also encouraged to rewrite or otherwise adopt the materials to best meet the needs of their students.

APPENDIX A

A—1 The Higher Education Amendments of 1986 - A brief explanation

A—2 GSL Activity Calendar

A—3 Supplemental Data Sheet

A—4 GSL Check Release Form

A—5 Borrower Rights/Responsibilities--Acknowledgement

A—6 GSL Exit Interview Form

A—7 GSL Repayment Schedule

A—8 GSL Tickler File Card

A—9 Mid-Program Letter

A—10 Graduate Letter--Follow-up #1

A—11 Graduate Letter--Follow-up #2

A—12 Drop out Letter #1

A—13 Drop out Letter #2

A—14 Drop out Letter #3

A—15 Delinquency Letter #1

A—16 Delinquency Letter #2

A—17 Default Letter

THE HIGHER EDUCATION AMENDMENTS OF 1986

(Public Law 99498)

UNDER GENERAL PROVISIONS

INDEPENDENT STUDENT DEFINITION Sec. 480 (d) H 7973

The law revises the definition of an "independent student." An independent student is any individual who is 24 years old or older by December 31 of the award year or who meets any one of the following criteria:

1) An orphan or ward of the court

2) A veteran of the U.S. Armed Forces

3) Any individual with legal dependents other than a spouse

4) Any graduate or professional student who will not be claimed as an income tax exemption by his or her parents for the first calendar year of the award year (e.g., calendar year 1987 for award year 1987-88)

5) Any married student who will not be claimed as an income tax exemption by his or her parents for the first calendar year of the award year

6) Any single undergraduate student not claimed as a dependent by his or her parents for the two calendar years preceding the award year and demonstrates self-sufficiency for both of these years by demonstrating an annual income of at least $4,000 for each year

7) An individual for whom the aid administrator makes "documented" determination of independence by reason of other "unusual" circumstances.

A school may package aid and/or certify a GSL for a student filing as independent under criteria four (4) through six (6) above, but may not disburse awards until the student is able to "document" independent status.

Effective date: This provision is effective for GSL, FISL, SLS, ALAS, and PLUS loans with periods of enrollment beginning on or after January 1, 1987. (For Pell Grant and campus-based aid programs, the new definition is effective for award years 1987-88 and subsequent award years.)

Examples of documentation reviewed to verify compliance: For students qualifying under--

Criteria 1-3 A signed statement by the student

4-5 A signed statement by the student at time of loan application certification; supporting documentation must be obtained before check disbursement (e.g. parents 1040 for applicable years and verification af minimal $4,000 student income for each applicable year)

6 A signed statement by the student at time of loan application certification; supporting documentation must be obtained before check disbursement (e.g. parents 1040 for applicable years and verification of minimal $4,000 student income for each applicable year)

7 A signed document by a school official stating the basis on which the determination of independence was made (e.g. affidavit of nonsupport, letters from ministers or counselors verifying adverse home conditions)

Documentation should be date-stamped by the Financial Aid Office and maintained in a student's file.

SATISFACTORY ACADEMIC PROGRESS Sec. 484 (c) H 7975

An institution must review the academic progress of a student a minimum of once per academic year or its equivalent.

For a student to be eligible for Title IV aid after the student's second academic year of attendance at an institution, the student must have a cumulative C average or its equivalent or have academic standing at that point in the program that is consistent with the institution's requirements for graduation.

An institution may waive these requirements if the student has undergone undue hardship because of the death of a relative, and injury or illness of the student, or other special circumstances as determined by the institution. A waiver must be documented in the student's file.

Effective date: Periods of enrollment beginning on or after July 1, 1987 but only for those students who have not received Title IV assistance in a previous award year.

Examples of documentation reviewed to verify compliance: Institution's satisfactory academic progress criteria and procedures, student's academic records (e.g. grades and if applicable attendance), working papers from school's academic progress review (e.g. rosters, lists). If requirement has been waived, a document signed and dated by a school official stating the reason for the waiver must be in the student's file.

ABILITY TO BENEFIT Sec. 484 (d) H 7975

A student who is admitted on the basis of ability to benefit from the education or training in order to remain eligible for any grant, loan or work assistance under this title shall--

1. receive the general education diploma (GED) prior to the student's certification or graduation from the program of study, or by the end of the first year of the course of study, whichever is earlier, or

2. a) be counseled prior to admissions or be administered a nationally recognized standardized or industry developed test, subject to criteria developed by the

appropriate accrediting association, measuring the applicant's aptitude to complete successfully the program to which he has applied; and

b) with respect to applicants who are unable to satisfy the institution's admission's testing requirements specified in subparagraph (a), be enrolled in an institutionally prescribed program or course of remedial or developmental education, not to exceed one academic year or its equivalent.

Effective date: Periods of enrollment beginning on or after July 1, 1987

Examples of documentation reviewed to verify compliance: Copy of a GED, a record of the counseling interview signed and dated by a school official and the student, a copy of the scored test and testing criteria (e.g. passing scores, retests), remedial course plan, course transcripts.

DRUG ABUSE PREVENTION PROGRAM Sec. 487 (a) (10) H 7978

An institution must certify to the Secretary that it operates a drug abuse prevention program that is determined by the institution to be accessible to any officer, employee, or student at the institution.

Effective date: For periods of enrollment beginning on or after July 1, 1987

Examples of documentation reviewed to verify compliance: A copy of the certification to the Secretary from the school.

EXIT COUNSELING FOR BORROWERS Sec. 485 (b) H 7976

Every participating educational institution is required to make available loan counseling/exit interviews for all students who receive loans at the school. The counseling may be accomplished prior to the completion of studies or at the time of departure from the institution. The counseling can be provided in group sessions or individually. For students who withdraw or leave school early, the school, to the extent practicable, must attempt to provide the information to those borrowers. The counseling session shall include:

1. general information with respect to the average indebtedness of students who have loans,
2. The average anticipated monthly repayment,
3. review of the repayment options,
4. information on debt management designed to address repayment of loan indebtedness.

Effective date: For periods for enrollment beginning on or after July 1, 1987

Examples of documentation reviewed to verify compliance: Written procedures by which institution makes published information available to loan recipients.

SIMPLIFIED NEEDS TEST Sec. 479 (a) H 7972

The Secretary must develop and implement a simplified need analysis for the calculation of an EFC when the total family adjusted gross income is $15,000 or less and an IRS Form 1040A has been filed. The provision refers specifically to the "1040"; persons filing other versions of the tax return should not be evaluated under the revised procedure.

The simplified need analysis is applicable to all Title IV programs and will use five data elements:

1) Adjusted gross income

2) U.S. and State income taxes paid

3) Untaxed income and benefits

4) Household size

5) Number of family members enrolled in postsecondary institutions.

Effective date: The system must, according to the law, be effective for the 1988-89 award year (for periods of enrollment beginning on or after July 1, 1988).

Examples of documentation reviewed to verify compliance: The use of the approved simplified needs test by the Secretary and any pertinent document or computational products.

UNDER THE GUARANTEED STUDENT LOAN PROGRAM

NEEDS ANALYSIS FOR ALL GSL APPLICANTS Sec. 480 (f) (2) and (3) H 7973

GSL is now "need" based. All GSL applicants must demonstrate financial need and may borrow what they need up to the loan limits. The system the school uses must be an approved needs analysis system (i.e. uniform methodology or Pell methodology with adjustments). The new law no longer permits the look-up tables, as previously allowed for GSL.

Effective date: Loan applications signed by student on or after October 17, 1986 are subject to the new need analysis requirements.

Examples of documentation reviewed to verify compliance: Name of Federally approved needs analysis system, UM output document (e.g. SAR, FAFNAR, hand calculation worksheets, computer generated worksheet).

* Institutions are reminded to continue to obtain the selective service registration compliance certification which was previously on the GSL needs test form.

LOSS OF ELIGIBILITY FOR VIOLATION OF LOAN LIMITS Sec. 484 (g) H 7975

Students who in any academic year, borrow more than the annual loan limits for which they are eligible under the GSL, PLUS, SLS, Perkins loan (formerly NDSL) programs,

lose their eligibility for further title IV assistance for that academic year.

Effective date: Date of enactment - October 17, 1986

Examples of documentation reviewed to verify compliance: Campus based aid award letters, GSL and/or PLUS/SLS applications, financial aid transcripts (if applicable, proof of termination of Title IV Assistance for the award year when applicable).

NOTIFICATION OF ADDRESS AND ENROLLMENT STATUS Sec. 428 (b) (1) (P) H 7943

Schools must promptly notify the holder of a student's loan, either directly or through the guarantee agency, of the student's change of address or enrollment status.

Effective date: Date of enactment - October 17, 1986

Examples of documentation reviewed to verify compliance: Proof of notification to lender or to the guaranty agency of student change of address or enrollment status (e.g. school copy of completed student status confirmation report).

INCREASED ANNUAL & AGGREGATE LOAN LIMITS FOR GSL Sec. 425 (a) (1) (2) H 7973

The annual and aggregate loan limits have been increased for undergraduate and graduate/professional students:

BORROWER	ANNUAL LIMIT	AGGREGATE
* First and Second Year Undergraduate or Vocational	$2,625	———
* Third through Fifth Year Undergraduate	$4,000	$17,250
* Graduate/Professional	$7,500	$54,750*

(* includes undergraduate borrowing limits)

All applicants must demonstrate financial need to receive a GSL. Loans may not exceed the cost of attendance minus EFC minus other financial aid received for the enrollment period.

The interest rate for GSL during the 86-87 and 87-88 award periods remains at 8 percent for new borrowers. Repeat borrowers continue to borrow at their previous 7, 8, or 9 percentage rates. Effective for periods of enrollment beginning on or after July 1, 1988 (88-89 award year), the interest rate for new borrowers will be 8% during the in-school and first four years of repayment, and then increase to 10% in the fifth year of repayment.

Effective date: New GSL loan limits go into effect for enrollment periods beginning on or after January 1, 1987. Aid administrators may begin to certify applications subject to the new loan limits prior to the effective date.

Examples of documentation reviewed to verify compliance: Current and prior GSL Loan applications, check handling documents, financial aid transcripts, verification of grade level and/or graduate or professional status (e.g. academic transcripts, notification of admission to graduate or professional status).

PLUS LOANS Sec. 428B H 7947

The law authorizes a parent loan program for parents of dependent (undergraduate and graduate/professional) students. The annual maximum amount parents may borrow for each dependent student is $4,000 per academic year up to an aggregate limit of $20,000 for each dependent student.

The parent borrower is eligible for the following deferments: in-school status, temporary total disability, rehabilitation training and unemployment.

This loan may be counted as part or all of the expected family contribution in the determination of need for campus based funds, but no loan may be given to any parent which would cause the combined loans of the parent and the student to exceed the student's estimated cost of attendance minus student's estimated financial assistance.

Repayment of principal starts immediately, no later than 60 days after disbursement, unless deferred.

Effective date: Date of enactment - October 17, 1986.

Examples of documentation reviewed for compliance: Prior and current PLUS loan applications, dependency status, total financial assistance awarded for the year.

SUPPLEMENTAL LOANS FOR STUDENTS (SLS) Sec. 428A (a), (b), and (c) H 7946-47

The law authorizes a supplemental loan program for graduate/professional and independent undergraduate students.

Students borrowing under the supplemental program may receive up to $4,000 annually and $20,000 in the aggregate. Loans may replace expected family contribution, but the total amount of aid including Supplemental loans may not exceed the cost of attendance. Multiple disbursements are no longer required.

Independent undergraduates who qualify may obtain an SLS loan in addition to a full GSL. Previously, an independent undergraduate was limited to a combination of no more than $2,500 under both GSL and Supplemental loans.

Repayment of principal starts no later than 60 days after disbursement and may be deferred under certain conditions.

Examples of documents reviewed for compliance: Prior and current loan applications, financial aid transcripts, verification of graduate and or professional status (e.g. academic transcripts, notification of admission to graduate or professional status), independent student status documentation, total financial assistance awarded for the year.

STUDENT ELIGIBILITY Sec. 484 (A) (1) H 7975

To receive any grant, loan or work assistance (including GSLs, SLSs, and PLUSs) a student must be enrolled or accepted for enrollment in a degree, certificate program, or other program leading to a recognized education credential at an institution of higher education..

Effective date: For periods of enrollment beginning on or after July 1, 1987

Examples of documentations reviewed to verify compliance: Enrollment contract, admission applications which certify a student's degree or certificate objective, notification of acceptance in a degree or certificate program, academic transcripts.

VERIFICATION LIMITATIONS Sec. 484 (f) H 7975

Notwithstanding any other provisions of the law, the Secretary may not require or prescribe regulations that require institutions to verify the accuracy of data used to determine eligibility for student financial aid for more than 30% of the applicants in any given award year. This provision encompasses Pell Grant, campus based aid and the GSL/PLUS/SLS programs.

Effective date: For periods of enrollment beginning on or after July 1, 1987.

Examples of documentation reviewed to verify compliance: Institution's written policy and procedures specifying the methods it will use to comply with the verification requirements.

LOAN APPLICATION PROCESSING FEE Sec. 487 (a) (2) H 7977

An institution may not charge students a fee for processing or handling any application, form, or data required to determine the student's eligibility for assistance or the amount of such assistance.

Effective date: Upon enactment - October 17, 1986

Examples of documentation reviewed to verify compliance: Consumer information relating to institutional charges, student account ledgers.

INFORMATION DISSEMINATION Sec. 487 (a) (9) H 7977

An institution must inform all eligible GSL borrowers of the availability of State Grant Assistance from the State in which the institution is located and must inform out-of-State borrowers of the source of information for assistance from the student's State of residence.

Effective date: upon enactment - October 17, 1986

Examples of documentation reviewed to verify compliance: Consumer information materials (e.g. brochures, school catalogue, application instructions).

LIMITATION, SUSPENSION, AND TERMINATION Sec. 428 (h) (2) and (3) H 7952

1. The Secretary shall be informed of any eligible institution for which any guaranty agency has imposed any limitation, suspension, or termination.

2. The Secretary will, within 60 days, after receipt of the notice from any guaranty agency, review any limitation, suspension, or termination action, unless the right to review is waived in writing by the lender or school.

3. The Secretary shall disqualify such lender or school from all of the guarantor's GSL, PLUS, SLS, and Loan Consolidation programs and will notify all guarantors of the disqualification if--

   a. such review is waived, or

   b. the Secretary determines that the limitation, suspension, or termination was imposed in accordance with the requirements of the Act.

4. Disqualification will not be lifted until the Secretary is satisfied that the institution has corrected the failures which led to the limitation, suspension, or termination and finds that there are reasonable assurances that the institution will, in the future, comply with the requirements of this Act.

5. The Secretary shall notify each guaranty agency if any disqualifications have been removed.

Effective date: Date of Enactment - October 17, 1986

Examples of documentation reviewed to verify compliance: Not applicable

GSL ACTIVITY CALENDAR

ACTIVITY/ MONTH/ NUMBER INDICATORS WEEK

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

1. Entrance Interviews
2. 1st scheduled GSL disbursements
3. 2nd scheduled GSL disbursements
4. Mid-Program Letters
5. Exit Interviews-- Written notification to students
6. Student Status Confirmation Schedule (for each major guarantor)
7. Follow-up Letters
   - A. Grads
   - B. Dropouts
   - C. Delinquency/ Defaults

PLANNING CALENDAR

1. Final copy--next year's Financial Aid Brochures/ Apps
2. Order/ Print Default Prevention materials
3. Staff training--default prevention
4. Other

SUPPLEMENTAL DATA SHEET

1. Student Name _____ Social Security # _____
   Address _____ Phone # _____
   Street _____
   _____
   City State Zip Code

2. Review your GSL applications
   Has your date of graduation changed? If so, inform your lender.
   Have any of your GSL references moved? If so, provide new addresses

1st Reference	2nd Reference
Name _____	Name _____
Address _____	Address _____
_____	_____
Phone # _____	Phone # _____

3. List 2 additional references who are likely to know your address in future years:

Reference 1	Reference 2
Name _____	Name _____
Address _____	Address _____
_____	_____
Phone # _____	Phone # _____

4. If you are employed, list employer's address and phone number

   Employer _____
   Address _____
   _____
   Phone # _____

GUARANTEED STUDENT LOAN

CHECK RELEASE FORM

Student Name _____ Social Security # _____

Amount of Check _____ Check # _____ Release Date _____

Student Certification

I certify that I am not in default on any prior student loans nor do I owe any repayment on Federal student aid grants previously received.

I know that money received from the GSL program is a loan and I promise to repay it when due.

Change of Address

If your address has changed since your loan application, list your address here.

_____

_____

_____

Student Signature _____

School Certification

At the time of check release, the above named student was enrolled on at least a halftime basis and in compliance with institutional satisfactory academic progress policy and requirements.

Signature of School Official _____

BORROWER RIGHTS AND RESPONSIBILITIES

ACKNOWLEDGEMENT

I know that my guaranteed student loan is a loan and must be repaid.

I fully accept that responsibility.

I acknowledge that I have been fully informed of my rights and responsibilities under the GSL program.

I understand that my GSL is to be used to pay for my training and necessary living expenses.

I will inform my lender if my address or name changes or if I leave school, transfer, or drop below halftime status.

I am not in default on any other Guaranteed Student Loan nor do I owe any repayments on prior Federal Student Aid.

Signed _____

Date _____

Social Security # _____

GUARANTEED STUDENT LOAN

Exit Interview

1. Amount Borrowed

While attending this school	Others GSL s
Amount Borrowed _____	Amount Borrowed _____
Interest Rate _____	Interest Rate _____
Lender _____	Lender _____

Other Student Loans _____

_____

2. Typical Repayment Schedules

Sample monthly payments for loan balances typical of our students are as follows:

Amount Borrowed	Number of Payments	Monthly Payment Amount
$2,600	65	$50.00
5,250	120	63.29
7,800	120	94.63

3. My Repayment Schedule

(Calculate your probable repayment schedule from the tables enclosed in your kit. If you have borrowed from more than one lender calculate each monthly repayment separately.)

1. Total Amount Borrowed _____ 2. # of Monthly Payments _____
3. Average Monthly Payment _____ 4. Graduation Date _____
5. First Payment Due (6 months from graduation) _____

4. Rights and Responsibilities

- I understand that if I change my address or name, I must notify the lender within 10 days.
- I understand that if I meet certain requirements, I have the right to defer payments on the loan. These deferment provisions are set forth under the section titled Deferment in my promissory note. I understand that if I default on my loan, I lose these rights.

- I understand that if I am temporarily unable to make payments, I may request my lender to grant me a forbearance which can be:
  - — a short period of time in which I make no payment, or
  - — a longer period of time for making payments, or
  - — a different repayment schedule than was first given me.

I know that it is up to the lender whether to grant this request and I recognize the importance of requesting a forbearance before any payments are overdue.

A. Loan Consolidation

If you have borrowed (student loans) from more than one lender, you should explore loan consolidation or refinancing. While this could mean a slightly higher interest rate, it would also allow a longer time to repay the loan and lower monthly payments. If you think you may want to consolidate loans, review the loan consolidation handout and make an appointment to see your aid officer.

B. Department of Defense Repayment

Army personnel may have their loans repaid by the Secretary of Defense in accordance with Section 902 of the Department of Defense Authorization Act of 1981. Questions concerning this program should be addressed to:

Commander
Military Personnel Center
DAPC—PLP
Alexandria, Virginia 22332

C. If you qualify under this program, each year you serve on Active Duty, the Army will pay one-third of the indebtedness or $1,500, whichever is greater. For each year you serve in the Army Reserve, 15 percent of the indebtedness or $500, whichever is greater, will be paid.

Acknowledgement

I acknowledge that I have attended A GSL exit interview where all of the material covered on this acknowledgement form was explained to me. I know that I am responsible for repaying my student loan.

_____

Signature

_____

Date

GUARANTEED STUDENT LOAN SAMPLE REPAYMENT CHART

Note: Actual monthly payments may differ from the chart below. Some lenders will round payments to the nearest $5.00 or $10.00 while others may want to schedule repayments in 6 or 12 month time blocks. The chart depicts the lowest possible payment and the longest possible repayment period.

GSL 8 PERCENT INTEREST CALCULATION

LOAN AMOUNT	NUMBER OF PAYMENTS AMOUNT	PAYMENT AMOUNT	FINAL PAYMENT	TOTAL INTEREST PAID
200.00	5	50.00	3.39	3.39
400.00	9	50.00	12.45	12.45
600.00	13	50.00	27.51	27.51
800.00	17	50.00	48.83	48.83
1000.00	22	50.00	26.93	76.93
1200.00	27	50.00	12.08	112.08
1400.00	32	50.00	4.84	154.84
1600.00	37	50.00	5.77	205.77
1800.00	42	50.00	15.31	265.31
2000.00	47	50.00	34.16	334.16
2200.00	53	50.00	12.97	412.97
2400.00	59	50.00	2.41	502.41
2600.00	65	50.00	3.56	603.56
2800.00	71	50.00	17.19	717.19
3000.00	77	50.00	44.53	844.53
3200.00	84	50.00	36.79	986.79
3400.00	91	50.00	45.41	1145.41
3600.00	99	50.00	21.48	1321.84
3800.00	107	50.00	18.20	1518.20
4000.00	115	50.00	36.54	1736.54
4200.00	120	50.95	Even	1914.00
4400.00	120	53.38	payments	2005.60
4600.00	120	55.81	for loan	2097.20
4800.00	120	58.23	levels	2187.60
5000.00	120	60.66	over	2279.20
5200.00	120	63.09	$4,000.00	2370.80

GSL 8 PERCENT INTEREST CALCULATION
(Continued)

LOAN AMOUNT	NUMBER OF PAYMENTS AMOUNT	PAYMENT AMOUNT	TOTAL INTEREST PAID
5400.00	120	65.51	2461.20
5600.00	120	67.94	2552.80
5800.00	120	70.37	2644.40
6000.00	120	72.79	2734.80
6200.00	120	75.22	2826.40
6400.00	120	77.64	2916.80
6600.00	120	80.07	3008.40
6800.00	120	82.50	3100.00
7000.00	120	84.92	3190.40
7200.00	120	87.35	3282.00
7400.00	120	89.78	3373.60
7600.00	120	92.20	3464.00
7800.00	120	94.63	3555.60
8000.00	120	97.06	3647.20
8500.00	120	103.12	3874.40
9000.00	120	109.19	4102.80
9500.00	120	115.25	4330.00
10000.00	120	121.32	4558.40
10500.00	120	127.39	4786.80
11000.00	120	133.45	5014.00
11500.00	120	139.52	5242.40
12000.00	120	145.58	5469.60
12500.00	120	151.65	5698.00
13000.00	120	157.72	5926.40
13500.00	120	163.78	6153.60
14000.00	120	169.85	6382.00
14500.00	120	175.91	6609.20
15000.00	120	181.98	6837.60

GSL TICKLER FILE CARD

Front

1. NAME, L, F, MI _____
2. FIRST ADDRESS _____
_____
_____

SECOND ADDRESS _____
DATE _____ _____
_____

THIRD ADDRESS _____
DATE _____ _____
_____

3. GRAD DATE _____
W/DRAW DATE _____
EXIT INT DATE _____

GRP IND MAIL

4. GRAD DROP
5. FIRST FOLLOW _____
SECOND FOLLOW _____
THIRD FOLLOW _____

NOTES: 1) Control cards filed alphabetically when first completed, placed in the following tickler file by date of next scheduled follow-up.

2) Use card to maintain chronology of address changes. Add more cards if needed.

3) Circle whether exit interview was group, individual or mail.

4) Circle whether student is GRAD or DROP

5) When each follow-up is completed, enter the date and then move to the next follow-up

6) When all follow-ups are completed, move card back to alpha file

Back

Notice of Delinquency Date _____ Amount _____

Lender/Holder _____

1) Contact Person _____

Delinquency Comments (2)

1st Follow-up _____ _____

2nd Follow-up _____ _____

_____

_____

3) Default Notice Date _____ Amount _____

Guaranty Agency _____

Contact Person _____

1st Follow-up

Comments _____

2nd Follow-up

Comments _____

NOTES: 1) Keep track of contact people at both the lender and guarantor.

2) If you are contacted by the student, use the card to record your comments.

3) If you are informed that the student has cured a delinquency, consider sending a congratulations note.

MID PROGRAM LETTER

Dear Student,

When you received your Guaranteed Student Loan you accepted the responsibility of keeping your lender informed of any changes in your status.

If any of the following occurred, please inform your lender immediately. If you have been notified that your loan has been sold to a secondary market or another lender, the notification should be sent to them.

- If your name or address has changed, notify your lender.
- If your anticipated graduation date has changed from that reported on the application, notify your lender. They calculate the repayment period from the graduation date, and if it is wrong, you could be asked to repay earlier than necessary or find yourself delinquent because of missed payments.
- If you drop below half-time enrollment, notify your lender.

Remember you must keep your lender informed of significant changes. It will help you build a good working relationship and protect your rights.

If you have any questions about your GSL or financial aid, please call me or make an appointment for an interview.

Sincerely,

Financial Aid Director

GRADUATE LETTER
Grace Follow-up #1
(90 days from graduation)

Dear Student:

This note is to remind you that your first Guaranteed Student Loan payment is due in about 3 months. You should have heard from your lender about a repayment schedule but if you haven't, you should call or write them immediately. Don't wait–repaying is a lot easier when you have time to prepare for it.

In your exit interview kit, we gave you information on deferments and forbearance.

If any of those circumstances apply to you, now is the time to contact your lender and explain your situation. If you have any questions, I'd be glad to help. You can reach me at _____ .

I hope that this letter finds you enjoying a lot of on-the-job satisfaction and the beginning of a successful career. But if you've had trouble finding a job, remember that our placement service is always willing to work with you.

We are always glad to hear from our graduates. If you get a chance, drop us a line and let us know how you're doing. Also, any suggestions you may have for things that we could do better would be greatly appreciated.

Good luck and let us know if we can help in any way.

Sincerely,

Financial Aid Director

GRADUATE LETTER
Grace Follow-up #2
(135 days from graduation)

Dear Student:

This is a reminder that your first Guaranteed Student Loan repayment should be due in another 6-8 weeks. If you haven't received a repayment schedule from your lender write and call immediately.

You don't want to start off with a late payment. It can create a lot of problems for you.

Review your student loan repayment game plan. if you think you're eligible for a deferment or need a forbearance, act now. Those are your rights that you are protecting.

If you have any questions or if I can help in any way, call me at _____.

Sincerely,

Financial Aid Director

DROPOUT LETTER #1
60 days after drop

Dear Student:

You recently left (school name) without completing your program. We are always sorry to see program interruptions of this kind.

We want to remind you that your Guaranteed Student Loan will enter repayment in about four months. You should have informed your lender of the date you left school. If you haven't done so yet, do it immediately. It is a program requirement.

If your circumstances have changed, why not consider returning to school to complete your program. We'd be happy to talk it over with you.

If you have any questions concerning your student loans please call me at _____ .

Sincerely,

Financial Aid Director

DROPOUT LETTER #2
120 days from drop

Dear Student:

It's now been four months since you left _____. We hope that things are working out well for you.

By now you should have received a Guaranteed Student Loan repayment schedule from your lender. If not, contact the lender immediately. You don't want to start off on the wrong foot, it makes it much harder.

I've enclosed another copy of the GSL Repayment Game Plan. Why don't you review it and see how it fits your circumstances? If you qualify for a deferment or need forbearance, now is the time to apply.

Have you thought about coming back to school to complete your program? Remember if you come back (even halftime) before the grace period on your loan expires, it gets set back to zero and you have another six month grace period that begins after you graduate. But if you wait until it expires, you'll have to qualify for a deferment if you want to go back to school and postpone paying on your loan while doing so.

If you have any questions or if I can help in any way, call me at _____.

Sincerely,

Financial Aid Director

DROPOUT LETTER #3
150 days from drop

Dear Student:

This is just a reminder that your first GSL repayment is due in another month. If you don't have a repayment schedule, don't wait another day--call your lender immediately.

Recheck the game plan and protect your rights.

It's important to make that first payment on time. It's your credit record and a good credit rating will be very important to you in the future. Reread the enclosed "sad story."

If you have any questions, give me a call at _____ .

Sincerely,

Financial Aid Director

(Enclose a copy of the worst case scenario.)

DELINQUENCY LETTER #1

Dear Student:

Your lender has informed us that you are delinquent in making your student loan payments. We are sorry to hear that you are having difficulties.

We hate to see you get into financial trouble and would like to help you.

I've enclosed another copy of the repayment game plan. If you are having real problems in paying the loan, there should be a solution in there for you.

Repaying the loan is a serious obligation. It's important to you that you keep a good credit rating and it's important to other students who want to borrow in the future that you repay your loan.

It doesn't make sense to go into default. You will eventually be forced to repay the loan and it will cost you a lot more money and hassles.

If we can provide any advice or answer any questions, we'd like to do so. Please call me at _____ .

Sincerely,

Financial Aid Director

DELINQUENCY LETTER #2

Dear Student,

This is a last chance letter. According to our records, your student loan will soon go into default. If you've corrected the problem, good for you. Make a paper airplane out of this letter and let it fly away.

But if you haven't--think real hard about the consequences.

When a student loan goes into default--a lot of things happen--all bad.

All the major credit bureaus are informed which means--bad credit, no credit cards, no car loans, no credit period.

Eventually, you will repay the loan because you will be forced to. The government can take your income tax refunds and attach your wages, even take your car or other property. They will also make you pay for the costs of collecting from you. It just doesn't make good sense to default.

Have you checked out deferments and forbearances?

Is there any way you can pay what you owe? If there is, do it. It's a lot cheaper and a lot smarter than going into default.

If you have any questions, give me a call at _____ . I'd still like to help.

Sincerely,

Financial Aid Director

DEFAULT LETTER

Dear _____ .

We have been notified by your lender that your guaranteed student loan is now in default.

Defaulting on a student loan creates a lot of problems for the borrower. Your default has, by now, been reported to the major credit bureaus which means you have a bad credit history. If you try to borrow for a car or home or attempt to obtain credit cards, those lenders and merchants will check your credit history and will probably refuse you any additional credit.

You can expect the Federal government to take any tax refunds you may have in the future and there is a very good chance that the guaranty agency will sue you and then add the court and collection costs to what you owe.

The only way to solve the problem is to pay off the loan. If at all possible, you should cooperate with the guaranty agency and agree to a repayment schedule.

If you make regular payments for 12 months, there is an opportunity to have the loan "rehabilitated" and removed from default.

(OPTIONAL)

Normally, it is school policy to refuse placement and transcript services to defaulting borrowers. However, we would really like to see you solve your default problem. If you are willing to make an honest commitment to repaying the loan, I would be willing to arrange an exception that would allow our placement office to work with you.

If we can help you, we are still willing to try.

Please call me at _____ if I may be of assistance. Remember that it is your financial future that is now in jeopardy.

Sincerely,

Financial Aid Director